SUPREME COURT, U.S.
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No. ___

IN THE

Supreme Court of the United States

THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,
Petitioner,

v.

FUJITSU LIMITED AND FUJITSU HITACHI
PLASMA DISPLAY LIMITED,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether a State loses the right to an immediate appeal of a district court's denial of a claim of Eleventh Amendment sovereign immunity—a right recognized in *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139 (1993)—when the district court indicates it may revisit the denial later in the lawsuit.

PARTIES TO THE PROCEEDING

The Petitioner in this Court is the Board of Trustees of the University of Illinois, plaintiff and counterclaim-defendant in the district court. The Respondents are Fujitsu Limited and Fujitsu Hitachi Plasmā Display Limited, defendants and counterclaimants below. Other parties to the proceedings in the district court (but not in the court of appeals or on this petition) are counterclaim-defendant Competitive Technologies, Inc., and defendants Fujitsu General Limited, Fujitsu General America, Inc., and Fujitsu Microelectronics America, Inc.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner, the Board of Trustees of the University of Illinois, respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals dismissing Petitioner's appeal (App., *infra*, 1a-13a) is reported at 374 F.3d 1098 (Fed. Cir. 2004). The opinion of the court of appeals denying Petitioner's Petition for Rehearing and Suggestion for Rehearing En Banc (App., *infra*, 14a-18a) is reported at 393 F.3d 1376 (Fed. Cir. 2005). The opinion of the district court denying Petitioner's motion to dismiss Respondents' state-law counterclaims (App., *infra*, 19a-96a) is reported at 286 F. Supp. 2d 1118 (N.D. Cal. 2003).

JURISDICTION

The judgment of the court of appeals to be reviewed, which dismissed Petitioner's appeal, was entered on June 30, 2003. Petitioner had invoked the jurisdiction of the court of appeals under the "collateral order" doctrine and its particular application to appeals of denials of Eleventh Amendment sovereign immunity pursuant to *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139 (1993). The subsequent order of the court of appeals, denying Petitioner's Petition for Rehearing and Suggestion for Rehearing En Banc, was entered on January 3, 2005. This Petition for Certiorari is therefore timely under Supreme Court Rule 13. The jurisdiction of this Court is invoked under Title 28 U.S.C. section 1254(1).

CONSTITUTIONAL PROVISION INVOLVED

The Eleventh Amendment to the United States Constitution states:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

STATEMENT OF THE CASE

The Federal Circuit sua sponte dismissed on jurisdictional grounds the interlocutory appeal by a State entity from a district court's order denying a motion to dismiss based on Eleventh Amendment sovereign immunity. In doing so, the Federal Circuit created a split between itself and the Fifth Circuit as to when jurisdiction over such appeals is proper. The Federal Circuit decision also contravenes established law that was designed by this Court to protect the dignity of the States in the federal system.

On December 21, 2000, Petitioner the Board of Trustees of the University of Illinois (the "University") sued Fujitsu Limited, Fujitsu General Limited, Fujitsu Hitachi Plasma Display Limited, Fujitsu General America, Inc. and Fujitsu Microelectronics America, Inc. (collectively, "Fujitsu"), for patent infringement in the United States District Court for the Central District of Illinois. The case was stayed until September 25, 2001 because of a parallel proceeding before the International Trade Commission. On April 2, 2002, the Illinois district court granted Fujitsu's motion to transfer the case to the Northern District of California. On October 2, 2002, Fujitsu amended its answers and counterclaims and asserted certain state-law counterclaims against the University.

On October 18, 2002, the University filed a motion to strike and dismiss Fujitsu's counterclaims 5-13 (counterclaims 6-13 are the state-law counterclaims mentioned above.) The University argued, among other things, that state-law counterclaims 6-13 violated the University's Eleventh Amendment sovereign immunity.

On February 10, 2003, the district court denied the University's motion to dismiss, rejecting the University's assertion of Eleventh Amendment sovereign immunity grounds and therefore letting stand Fujitsu's state-law counterclaims 6-11. App. 52a-53a, 84a.[1] The district court analyzed the sovereign immunity issues in detail in seventeen pages of its opinion. App. 31a-55a. The district court first determined, as have all other courts that have considered the issue, that the University is an arm of the State of Illinois, entitled to claim

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[1] The district court dismissed counterclaims 12 and 13 on grounds unrelated to sovereign immunity. App. 84a. On February 24, 2003, the district court filed a corrected (but substantively unchanged) version of its February 10, 2003 Order. The University refers to the corrected version of the order in this brief, and has attached that corrected version at App. 19a-96a.

Eleventh Amendment immunity. App. 43a.[2] The district court then extensively considered, but rejected, substantive arguments advanced by the University and concluded that the University "has waived its Eleventh Amendment immunity as to Counterclaims Six through Thirteen." App. 6a, 53a. Because the district court's waiver determination relied on allegations in Fujitsu's affirmative defenses, the district court noted in a footnote at the end of its analysis that if "the Court determines at a later stage of this case that Fujitsu's affirmative defenses are not supported by the evidence or are otherwise insufficient as a matter of law, it may be necessary to revisit the question of [the University's] waiver of Eleventh Amendment immunity." App. 53a, n.15.

On March 11, 2003, the University timely filed its appeal in the United States Court of Appeals for the Federal Circuit. App. 7a.[3] The University argued (among other things) that the district court erred by ruling that the University had waived its Eleventh Amendment sovereign immunity against Fujitsu's state-law counterclaims simply because of the supposed overlap between Fujitsu's state-law counterclaims and Fujitsu's own affirmative defenses. The Federal

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[2] Federal courts have consistently concluded that the University is an arm of the State of Illinois. *See, e.g., Kaimowitz v. Bd. of Trs. of the Univ. of Ill.*, 951 F.2d 765, 767 (7th Cir. 1991); *Cannon v. Univ. of Health Sciences/The Chicago Med. Sch.*, 710 F.2d 351, 356-357 (7th Cir. 1983); *Doe v. Univ. of Ill.*, 138 F.3d 653, 656-660 (7th Cir. 1998), *vacated on other grounds*, 526 U.S. 1142 (1999); *Nanda v. Bd. of Trs. of the Univ. of Ill.*, 2002 U.S. Dist. LEXIS 12861 at *6 (N.D. Ill. July 12, 2002); *Loeffler v. Univ. of Ill. at Chicago*, 36 F. Supp. 2d 1058, 1058 (N.D. Ill. 1999).

[3] After the University filed its appeal but before the Federal Circuit issued its opinion, the district court granted summary judgment to Fujitsu on the University's patent claims. The district court, in accordance with the parties' stipulation, granted final judgment under Federal Rule of Civil Procedure 54(b) and stayed litigation of all remaining claims in the district court pending resolution of any appeal from the judgment under Rule 54(b). The University has separately appealed from that judgment.

Circuit heard oral argument on the University's appeal on February 3, 2004.

On June 30, 2004, without any briefing on the issue, the Federal Circuit sua sponte dismissed the University's appeal for lack of jurisdiction. The Federal Circuit took this drastic step although it recognized that "neither party in its briefs contest[ed]" that the Federal Circuit had jurisdiction. App. 7a. The Federal Circuit held that this Court's pronouncement in *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139, 147 (1993) that "States and state entities that claim to be 'arms of the State' may take advantage of the collateral order doctrine to appeal a district court order denying a claim of Eleventh Amendment immunity" was inapplicable because the district court's decision was insufficiently final. The Federal Circuit relied on the district court's statement that "it may be necessary to revisit the question" of Eleventh Amendment immunity at a later stage of the litigation in concluding that the district court ruling was not final enough to support an immediate appeal. App. 3a, 11a, 53a n.15.

On July 14, 2004, the University petitioned the Federal Circuit for rehearing or rehearing en banc. In its petition, the University brought to the Federal Circuit's attention case law of the Fifth Circuit that conflicts with the Federal Circuit's dismissal of the University's sovereign immunity appeal. App. 16a. The Federal Circuit requested a response to the petition from Fujitsu, which Fujitsu filed on July 28, 2004. In its response, Fujitsu did not defend the Federal Circuit's sua sponte jurisdictional ruling. Instead, Fujitsu argued the merits of the sovereign immunity issue. App. 16a n.1. The Federal Circuit denied the University's petition for rehearing on January 3, 2005, relying again on the statement in the district court's opinion that it might reconsider its denial of sovereign immunity at a later time. App. 16a. The Federal Circuit

expressly declined to review the merits of the University's sovereign immunity defense. App. 16a n.1.

REASONS FOR GRANTING THE PETITION

I. THE FEDERAL CIRCUIT HAS CREATED A CONFLICT CONCERNING INTERLOCUTORY APPEALS FROM DENIALS OF ELEVENTH AMENDMENT SOVEREIGN IMMUNITY

A. States Have The Right To An Immediate Appeal From A Denial Of A Claim Of Eleventh Amendment Immunity

In 1993, this Court ruled that, when a district court denies a State's claim of sovereign immunity, the State may immediately appeal the denial. *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139 (1993). The Court recognized that immediate appealability of such denials is necessary to vindicate the Eleventh Amendment right at issue.

Puerto Rico Aqueduct dealt with the "collateral order" doctrine, which allows interlocutory appeals in certain circumstances. Title 28 U.S.C. section 1291 gives United States courts of appeals jurisdiction over appeals "from all final decisions of the district courts."[4] Despite the statute's requirement of finality, certain interlocutory decisions make up a "small class which finally determine claims of right separable from, and collateral to, rights asserted in the action, too important to be denied review and too independent of the cause itself to require that appellate consideration be deferred until the whole case is adjudicated." *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541, 546 (1949). This "small class" of interlocutory decisions may be appealed imme-

[4] 28 U.S.C. § 1295(a)(1) gives the United States Court of Appeals for the Federal Circuit jurisdiction over "final decision[s] . . . based on Section 1338 of [Title 28]."

diately, *id.* at 546-547, under what has come to be known as the "collateral order" doctrine. *See, e.g., Coopers & Lybrand v. Livesay*, 437 U.S. 463, 468 (1978).

In *Puerto Rico Aqueduct*, this Court held that "States and state entities that claim to be 'arms of the State' may take advantage of the collateral order doctrine to appeal a district court order denying a claim of Eleventh Amendment immunity." 506 U.S. at 147. The Court stated that "[o]nce it is established that a State and its 'arms' are, in effect, immune from suit in federal court, it follows that the elements of the *Cohen* collateral order doctrine are satisfied." *Id.* at 144.

The right to an immediate interlocutory appeal is necessary to vindicate the State's constitutional right to be free from having to litigate in Federal Court. Eleventh Amendment immunity is "an immunity from suit rather than a mere defense to liability," and "application of the collateral order doctrine in this type of case is justified in part by a concern that States not be unduly burdened by litigation." *Puerto Rico Aqueduct* at 144 (emphasis omitted), 146. The Court also specifically noted that the Eleventh Amendment "accords the States the respect owed them as members of the federation," and that the ultimate justification for the State's right to an interlocutory appeal is "the importance of ensuring that the States' dignitary interests can be fully vindicated." *Id.* at 146.

Since *Puerto Rico Aqueduct*, courts of appeals in every circuit have held that a denial of Eleventh Amendment immunity is immediately appealable—often explicitly recognizing the constitutional underpinnings of this procedural rule. *See, e.g., R.I. Dep't of Envtl. Mgmt. v. United States*, 304 F.3d 31, 43 (1st Cir. 2002) ("it seems beyond cavil that, absent immediate judicial review, an . . . adverse immunity determination will wholly deprive the state of a meaningful and adequate means of vindicating its rights.") (internal citations, brackets and quotation marks omitted); *Ossen v.*

Dep't of Soc. Servs. (*In re Charter Oak Assocs.*), 361 F.3d 760, 764 (2d Cir. 2004) (noting propriety of immediate appeal of sovereign immunity denial pursuant to *Puerto Rico Aqueduct*); *M.A. ex rel. E.S. v. State-Operated Sch. Dist.*, 344 F.3d 335, 344 (3d Cir. 2003) ("Because the protection of the Eleventh Amendment is akin to absolute immunity from suit, rather than an affirmative defense, that protection is lost if the suit is permitted to proceed without an appeal."); *Carefirst of Md., Inc. v. Carefirst Urgent Care Ctr., LLC*, 305 F.3d 253, 259 (4th Cir. 2002) (Eleventh Amendment immunity is paradigmatic "right that would be effectively lost if not vindicated before trial"); *Smith v. Wash. Metro. Area Transit Auth.*, 290 F.3d 201, 205 (4th Cir. 2002) ("It is settled that the denial of an immunity claim by a district court constitutes an appealable interlocutory decision.") (citations omitted); *Sherwinski v. Peterson*, *infra*, 98 F.3d 849 (5th Cir. 1996); *S.J. v. Hamilton County*, 374 F.3d 416, 418 (6th Cir. 2004); *Nanda v. Bd. of Trs. of the Univ. of Ill.*, 303 F.3d 817, 821 (7th Cir. 2002) ("It is well-settled that the issue of Eleventh Amendment immunity, which encompasses both immunity from liability as well as immunity from suit, is 'irretrievably lost' if not immediately appealable and therefore is properly raised in a collateral appeal."); *Okruhlik v. Univ. of Ark.*, 255 F.3d 615, 621 (8th Cir. 2001) (interlocutory denial of Eleventh Amendment immunity and all matters "inextricably intertwined" therewith are immediately appealable); *Montana v. Goldin* (*In re Pegasus Gold Corp.*), 394 F.3d 1189, 1193 (9th Cir. 2005); *Magnolia Marine Transp. Co. v. Oklahoma*, 366 F.3d 1153, 1154 (10th Cir. 2004) *Summit Med. Assocs., P.C. v. Pryor*, 180 F.3d 1326, 1334 (11th Cir. 1999) (noting that "[i]n *Puerto Rico Aqueduct*, the Supreme Court squarely held that an order denying a defendant Eleventh Amendment immunity is a collateral order subject to immediate interlocutory appeal"); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 148 F.3d 1343, 1346 (Fed. Cir. 1998) (citing *Puerto Rico Aqueduct* for proposition that

"pursuant to the collateral order doctrine and 28 U.S.C. § 1291, a state may appeal from a district court order denying it Eleventh Amendment immunity") (reversed on other grounds). This Court itself has repeated its pronouncement from *Puerto Rico Aqueduct* numerous times since, and as recently as May, 2004, in *Tennessee v. Lane*, 541 U.S. 509 n.1 (quoting *Puerto Rico Aqueduct*).

The current case appears to be the first one since *Puerto Rico Aqueduct* holding that a State does not have the right to an immediate interlocutory appeal of a denial of its sovereign immunity claim.[5] The Federal Circuit created an exception to the right to an immediate appeal recognized by *Puerto Rico Aqueduct*, concluding that a State may not appeal if the district determines that it may reconsider sovereign immunity issues later in the case. This exception to *Puerto Rico Aqueduct* (which the Federal Circuit created without any briefing of the jurisdictional issues, and which respondent Fujitsu did not defend even when requested by the court to respond to the University's rehearing petition) conflicts with case law from the Fifth Circuit. As explained immediately below, the Fifth Circuit has held that, even where a district court makes clear that it is willing to reconsider sovereign immunity issues later in a case, an immediate appeal is appropriate under *Puerto Rico Aqueduct*.

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[5] Two cases denied the right to an appeal where (unlike here) defendants sought immunity not from suit but from a particular type of damages. *Burns-Vidlak v. Chandler*, 165 F.3d 1257, 1260-1261 (9th Cir. 1999); *Mercer v. Magnant*, 40 F.3d 893, 896-897 (7th Cir. 1994). No case of which we are aware, until the current case, denied a State's right to an immediate appeal from a denial of sovereign immunity on entire causes of action.

B. The Fifth And Federal Circuits Conflict Over The Scope Of A State's Right To An Interlocutory Appeal

1. *The Fifth Circuit Recognizes That Denials Of Sovereign Immunity Are Subject To Immediate Appeal Even When A District Court May Revisit The Issue*

In *Sherwinski v. Peterson*, 98 F.3d 849 (5th Cir. 1996), the Fifth Circuit determined that it had jurisdiction over an appeal of a district court ruling refusing to dismiss on Eleventh Amendment sovereign immunity grounds, and reversed the district court on the issue. The Fifth Circuit concluded that it had jurisdiction over the appeal under *Puerto Rico Aqueduct* notwithstanding the fact that the district court order refusing to dismiss the State explicitly left open the possibility of later dismissal on immunity grounds, after "the factual and legal basis of the case has been further developed." *Id.* at 851.

In concluding that it had jurisdiction, the Fifth Circuit explained that, even if the sovereign immunity issue would be revisited later, an immediate appeal under *Puerto Rico Aqueduct* was necessary to vindicate the constitutional rights provided to the State of Texas by the Eleventh Amendment. Specifically, the Fifth Circuit reasoned:

> The district court's order does not deny the . . . motion to dismiss based on an express finding of no immunity, but the end result is the same—the [appellant], an arm of the State of Texas, is still involved in this litigation. 'The very object and purpose of the Eleventh Amendment [is] to prevent the indignity of subjecting a State to the coercive process of judicial tribunals at the instance of private parties.' Furthermore, 'the value to the States of their Eleventh Amendment immunity is for the most part lost as litigation proceeds past motion practice.' This

> Court, therefore has jurisdiction over this appeal under the collateral order doctrine.

Id. at 851 (quoting *Puerto Rico Aqueduct* at 146). *See also Gaines v. Davies*, 928 F.2d 705, 706-707 (5th Cir. 1991) (in qualified immunity case, Fifth Circuit assumed jurisdiction over interlocutory appeal from district court order refusing to rule on the immunity issue until after appellants submitted to depositions not limited to immunity issue).

The Fifth Circuit recognizes that, under *Puerto Rico Aqueduct*, orders denying a State or state entity's claim to Eleventh Amendment immunity constitute a class of cases that qualify for immediate appealability. *See Sherwinski, Gaines. See also Reyes v. Sazan*, 168 F.3d 158, 161 (5th Cir. 1999) ("Such appeals are within the collateral order doctrine's because the denial of immunity '[1] conclusively determines the disputed question, [2] resolves an important issue completely separate from the merits of the action, and [3] [is] effectively unreviewable on appeal from a final judgment.'") (quoting *Puerto Rico Aqueduct* at 144). Whether a district court order purports to expressly leave open the issue of Eleventh Amendment immunity has no effect on the immediate appealability of its denial of immunity.

2. *The Federal Circuit Has Held That Denials Of Sovereign Immunity Are Not Subject To Immediate Appeal When A District Court May Revisit The Issue*

Contrary to the decision of the Fifth Circuit, the Federal Circuit has held here that the right to an immediate appeal of a sovereign immunity denial is defeated because the district court might revisit the denial of immunity depending on later circumstances in the case.

There is no question that the district court denied on the merits the University's motion to dismiss on sovereign immunity grounds. The district court substantively analyzed

the sovereign immunity issues over the course of seventeen pages before holding that the University is an arm of the State of Illinois that enjoys sovereign immunity but that the University "has waived its Eleventh Amendment immunity as to Counterclaims Six through Thirteen." App. 53a, 6a. Prior to the current case, it was clear that such an explicit denial of sovereign immunity is subject to immediate appeal under *Puerto Rico Aqueduct*.

The district court concluded there was a waiver because it determined that Fujitsu's state-law counterclaims overlapped with Fujitsu's own affirmative defenses in the patent action—a fact that the University argued (both in the district court and in the Federal Circuit) should be irrelevant to sovereign immunity waiver. App. 44a, 7a. Because the district court determined that the issue of the sovereign immunity waiver is bound up in Fujitsu's own affirmative defenses, the Federal Circuit reasoned that the district court's denial of sovereign immunity could be altered by the result of later proceedings with respect to the affirmative defenses:

> The district court itself expressly noted that "it may be necessary to revisit the question of the [the University's] waiver of Eleventh Amendment immunity" if it were to determine "that Fujitsu's affirmative defenses are not supported by the evidence or are otherwise insufficient as a matter of law" . . . Until the district court resolves the issue of whether to dismiss some or all of Fujitsu's affirmative defenses, the University's entitlement to Eleventh Amendment sovereign immunity has not been "conclusively determined." [¶] Under such circumstances, we do not have jurisdiction over the district court's order under the *Cohen* collateral order doctrine.

App. 11a. In sum, the Federal Circuit determined that the fact that the district court's denial of sovereign immunity may be altered depending on later events in the proceedings defeats the State's right to an immediate interlocutory appeal. This is contrary to the Fifth Circuit's determination that an appeal

was proper despite the fact that the district court might later find immunity after "the factual and legal basis of the case has been further developed." *Sherwinski* at 851. It is also fundamentally at odds with the point of the rule allowing States to appeal immediately: that it constitutes an irreparable injury to the dignity of a State in our system to be required to litigate a matter as to which it is immune.

The University pointed out the conflict between the Federal Circuit's decision and *Sherwinski* in its petition for rehearing. In its order denying rehearing, the Federal Circuit attempted to distinguish the Fifth Circuit case:

> In *Sherwinski*, the district court denied the motion to dismiss by the [state entity], stating that "[u]ntil the factual and legal basis of the case has been further developed, no defendants will be dismissed." The Fifth Circuit noted that, although the district court's order did not expressly find that the [state entity] was not immune from suit, "the end result is the same" because the [state entity] did not receive the dismissal to which it was entitled. Thus *Sherwinski* is not a case in which the Eleventh Amendment immunity issue itself was expressly left open to reconsideration by the district court, as in this case; rather, the district court in *Sherwinski* declined to recognize the [state entity's] immunity defense and refused to dismiss."

App. 16a (citations omitted).

The Federal Circuit's attempted distinction of *Sherwinski* lacks analytical force. There is no practical difference for purposes of the collateral order doctrine between the Texas district court's statement that "[u]ntil the factual and legal basis of the case has been further developed, no defendants will be dismissed" and the California district court's statement that "[i]f the Court determines at a later stage of this case that Fujitsu's affirmative defenses are not supported by the evidence or are otherwise insufficient as a matter of

law, it may be necessary to revisit the question of [the University's] waiver of Eleventh Amendment immunity." In both cases, the district court's ruling explicitly recognized that its sovereign immunity determination could change later in the lawsuit. In both cases, the district court allowed the case to proceed against the State in the meantime. In such circumstances, the Fifth Circuit found that it had appellate jurisdiction while the Federal Circuit determined that it did not.

II. THE FEDERAL CIRCUIT'S HOLDING CURTAILS AN IMPORTANT PROCEDURAL RIGHT OF SOVEREIGN STATES

The Federal Circuit's decision here represents the first curtailment of a State's right to immediate interlocutory appeal as recognized by *Puerto Rico Aqueduct*. The ruling harms Eleventh Amendment rights recognized by this Court in a number of serious ways.

The decision allows a case to continue against a State—with no right to interlocutory review of a denial of sovereign immunity—on the theory that the case may ultimately be dismissed on immunity grounds. This runs contrary to the constitutional policies animating *Puerto Rico Aqueduct*, which establish that Eleventh Amendment immunity is "an immunity from suit rather than a mere defense to liability," and application of the collateral order doctrine in this type of case is justified by "the importance of ensuring that the States' dignitary interests can be fully vindicated." *Puerto Rico Aqueduct* at 144, 146. The Fifth Circuit clearly recognized these policies in *Sherwinski*: "the value to the States of their Eleventh Amendment immunity is for the most part lost as litigation proceeds past motion practice." *Sherwinski*, 98 F.3d at 851 (quoting *Puerto Rico Aqueduct* at 146). The Federal Circuit ruling ignores the policies that led *Sherwinski* and *Puerto Rico Aqueduct* to the contrary-conclusion. Allow-

ing a case to proceed without review until the district court revisits its ruling contravenes these principles.

The Federal Circuit's exception to the rule announced in *Puerto Rico Aqueduct* presents a blueprint for defeating the immediate appeal to which a State is entitled. If the approach taken by the Federal Circuit in this case were accepted, States could be deprived of their right to an immediate appeal whenever a district court is determined to leave open the immunity question until a later stage of the proceedings or expresses a willingness to revisit the issue at a later stage.

Further, the Federal Circuit's holding—that an appeal is not proper where "the Eleventh Amendment immunity issue itself was expressly left open to reconsideration by the district court" (App. 16a)—presents an exception that threatens instantly to swallow the rule. A statement by a district court that it may revisit the ruling simply makes explicit what is always the case with an interlocutory order—that the judge may reexamine his or her ruling on a particular issue at a later date. *Moses H. Cone Memorial Hosp. v. Mercury Constr. Corp.*, 460 U.S. 1, 12 (1983) ("every order short of a final decree is subject to reopening at the discretion of the district judge"). Yet this Court's precedent is exceptionally clear that denials of immunity are subject to immediate appeal even though they are always subject to reexamination by the district court.

The Federal Circuit's notion that the State may be forced to keep litigating until the district court revisits the issue conflicts with principles set forth in *Behrens v. Pelletier*, 516 U.S. 299 (1996). *Behrens* held that appellate jurisdiction exists over appeals of denials of immunity at each stage of a case—for example, from the denial of a motion to dismiss and then from a denial of a summary judgment motion. The Court noted: "*Harlow* [*v. Fitzgerald*, 457 U.S. 800 (1982)] and *Mitchell* [*v. Forsyth*, 472 U.S. 511 (1985)] make clear that the [immunity] defense is meant to give government

officials a right, not merely to avoid 'standing trial,' but also to avoid the burdens of 'such pretrial matters as discovery . . . , as inquiries of this kind can be peculiarly disruptive of effective government.'" *Id.* at 308 (emphasis and citation omitted). "Whether or not a later summary judgment motion is granted, denial of a motion to dismiss is conclusive as to this right. We would have thought that these and other statements from *Mitchell* and *Harlow* had settled the point[.]" *Id.* The recognition in *Behrens* that it is *not* acceptable to force an immune party to litigate until later action by the district court contradicts the Federal Circuit's determination that it is appropriate to force a sovereign State to do so.

The cases cited by the Federal Circuit in support of the rule are inapposite. Two of these did not concern any type of immunity (*Metro Servs. Inc. v. Wiggins*, 158 F.3d 162, 163 (2d Cir. 1998) (immediate appealability of designation of a lead class action plaintiff); *Lusardi v. Xerox Corp.*, 747 F.2d 174, 175 (3d Cir. 1984) (immediate appealability of class certification). App. 12a. Of the other two, *In re Agent Orange Prod. Liab. Litig.*, 745 F.2d 161 (2d Cir. 1984) (cited at App. 12a) has been superseded by *Mitchell v. Forsyth* and other Supreme Court cases, *see Dibble v. Fenimore*, 339 F.3d 120, 124 (2d Cir. 2003); *Lutz v. Secretary of Air Force*, 944 F.2d 1477, 1481 (9th Cir. 1991), and *Swint v. Chambers County Comm'n*, 514 U.S. 35, 43 (1995) expressly distinguishes itself in that the immunity asserted there "does not rank, under our decisions, as an immunity from suit" but rather "as a mere defense to liability." None of these cases should be used to limit this Court's jurisprudence embodied in *Puerto Rico Aqueduct* and *Mitchell v. Forsyth.*

The current case helps illustrate why it is inappropriate to deny a State's right to an immediate interlocutory appeal. The Federal Circuit determined that the University's right to an appeal must await the district court's later actions with respect to Fujitsu's affirmative defenses. The University con-

tends, however, that the alleged overlaps between Fujitsu's own affirmative defenses and Fujitsu's state-law counterclaims should not be relevant to determining sovereign immunity waiver. Because waiver must depend on the State's conduct—not its opponent's pleading choices—it is the facts underlying *the State's claims*, and not the defenses pled by its opponent, which may give rise to a waiver of sovereign immunity. *See, e.g., In re Lazar*, 237 F.3d 967, 979 (9th Cir. 2001) (considering whether "the counterclaim arises from the same aggregate set of operative facts *as the initial claim*") (emphasis added); *Lapides v. Bd. of Regents*, 535 U.S. 613, 620 (2002) (inquiry into waiver by litigation conduct "must focus on the litigation act *the State takes* that creates the waiver") (emphasis added); Fed. R. Civ. P. 13(a) (counterclaim is compulsory where it arises out of "the transaction or occurrence that is the subject matter of *the opposing party's claim*") (emphasis added). The district court extensively discussed and decided this issue of first impression in its published opinion. App. 45a-52a. The University respectfully disagreed with the district court's conclusion and challenged it on appeal.

The Federal Circuit, in dismissing the University's appeal, refused to address this issue until the district court makes further substantive rulings about the merits of the affirmative defenses. But if the University's argument is correct, such later rulings are irrelevant. Simply put, the University could be forced to endure additional litigation on Fujitsu's counterclaims, notwithstanding the existence of sovereign immunity, simply so that the district court can make further rulings which are irrelevant to the claim of immunity.[6]

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[6] The Federal Circuit discussed the district court's refusal to consider whether Fujitsu's affirmative defenses were insufficient as a matter of law or contained surplusage. App. 10a-11a. The district court's discussion of this issue is contained in a footnote at the very end of its extensive sovereign immunity analysis. App. 53a n.15. The Federal Circuit did not

Eleventh Amendment sovereign immunity is a fundamental right retained by the States under the Constitution. *See, e.g., Federal Maritime Commission v. South Carolina State Ports Authority*, 535 U.S. 743 (2002) ("An integral component of [the] residuary and inviolable sovereignty retained by the States is their immunity from private suits.") (internal quotation marks and citation omitted). In order that States and state entities might take true advantage of the rights that this Court has repeatedly recognized, the right to immediately appeal orders denying Eleventh Amendment immunity should be preserved.

III. AS AN ALTERNATIVE TO GRANTING THE PETITION, THIS COURT SHOULD SUMMARILY REVERSE THE FEDERAL CIRCUIT'S RULING

In addition to creating a conflict of authority with the Fifth Circuit's decision in *Sherwinski*, the ruling below is contrary to established law of this Court so as to justify an exercise of this Court's power to summarily reverse without requiring full briefing on the merits.

As explained above, this Court has held that rulings denying immunity defenses are subject to interlocutory appeal. The Federal Circuit's decision in this case fails to provide the University, an arm of the State of Illinois, the constitutional protection to which it is entitled. Such protection includes prompt interlocutory appellate consideration on the merits of whether the State is entitled to sovereign immunity—a procedural rule designed to "prevent the indignity of subjecting a State to the coercive process of judicial tribunals at the instance of private parties." *Puerto Rico Aqueduct* at 146.

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reach the important issue of first impression analyzed by the district court, and asserted by the University on appeal: whether the content of an affirmative defense asserted against a State's claim can waive the State's sovereign immunity in the first place.

Accordingly, as an alternative to granting the petition for certiorari and requiring merits briefing on the Federal Circuit's erroneous decision, the University respectfully requests that the Court grant summary reversal of the Federal Circuit's dismissal of the University's appeal in accordance with Supreme Court Rule 16.1.

CONCLUSION

The Federal Circuit's decision creates a conflict in the case law that weakens previously well-recognized protections for sovereign States. For the reasons stated above, the petition for a writ of certiorari should be granted. Alternatively, this Court should summarily reverse the Federal Circuit's dismissal of the appeal.

Respectfully submitted,

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April 4, 2005

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

03-1380

COMPETITIVE TECHNOLOGIES, INC.,
Plaintiff,

and

BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,
Plaintiff-Appellant,

v.

FUJITSU, LIMITED and FUJITSU HITACHI PLASMA DISPLAY LIMITED,
Defendants-Appellees,

and

FUJITSU AMERICA, INC., FUJITSU GENERAL AMERICA CORP., FUJITSU GENERAL LIMITED, and FUJITSU MICROELECTRONICS, INC.,
Defendants.

Morgan Chu, Irell & Manella LLP, of Los Angeles, California, argued for plaintiff-appellant. With him on the brief were *Joseph M. Lipner* and *Perry Goldberg*. Of counsel was *Dan Goldman*.

Karen L. Hagberg, Morrison & Foerster LLP, of New York, New York, argued for defendants-appellees. With her on the brief were *Preston Moore* and *Jun Tsutsumi*. Of counsel was *James Oliva*, of Palo Alto, California.

Appealed from: United States District Court for the Northern District of California

Magistrate Judge Joseph C. Spero

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

03-1380

COMPETITIVE TECHNOLOGIES, INC.,
Plaintiff,

and

BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,
Plaintiff-Appellant,

v.

FUJITSU LIMITED and FUJITSU HITACHI PLASMA DISPLAY LIMITED,
Defendants-Appellees,

and

FUJITSU AMERICA, INC., FUJITSU GENERAL AMERICA CORP., FUJITSU GENERAL LIMITED, and FUJITSU MICROELECTRONICS, INC.,
Defendants.

DECIDED: June 30, 2004

Before MAYER, GAJARSA, and DYK, *Circuit Judges*.

DYK, *Circuit Judge*.

The Board of Trustees of the University of Illinois ("the University") brought suit against Fujitsu Limited; Fujitsu General Limited; Fujitsu Hitachi Plasma Display Limited; Fujitsu General America, Inc.; and Fujitsu Microelectronics, Inc. (collectively, "Fujitsu"), alleging that Fujitsu infringed U.S. Patent Nos. 4,866,349 (the "'349 patent") and 5,081,400

(the "'400 patent"). Fujitsu asserted affirmative defenses and counterclaims against the University.[1] The University sought to have some of the counterclaims dismissed on Eleventh Amendment sovereign immunity grounds. The United States District Court for the Northern District of California denied the University's motion to dismiss Counterclaims 6-11 but stated that "it may be necessary to revisit the question of [the University's] waiver of Eleventh Amendment immunity." *Competitive Techs. v. Fujitsu Ltd.*, 286 F. Supp. 2d 1118, 1140 n.15 (N.D. Cal. 2003). The University appealed, claiming that the district court's order was immediately appealable under the collateral order doctrine of *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139 (1993). We dismiss the appeal for lack of jurisdiction.

BACKGROUND

On December 21, 2000, the University filed suit together with its licensee, Competitive Technologies, Inc. ("CTI"), against Fujitsu in the United States District Court for the Central District of Illinois ("the Illinois district court"), alleging infringement of the '349 and '400 patents. The action was stayed pending an investigation by the International Trade Commission ("ITC"), which was initiated with a complaint by the University and CTI. After the ITC dismissed the complaint, the Illinois district court lifted the stay on September 25, 2001. On April 2, 2002, the Illinois district court granted Fujitsu's motion to transfer the case to the United States District Court for the Northern District of California. On May 22, 2002, Fujitsu filed its answer asserting affirmative defenses to the University's and CTI's

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[1] Only Fujitsu Hitachi Plasma Display Limited and Fujitsu Limited are counterclaimants for the pertinent counterclaims. Like the district court and the parties, we refer to both the defendants and the counterclaimants as "Fujitsu."

patent infringement complaint, and bringing thirteen counterclaims against CTI. Among its affirmative defenses, Fujitsu asserted "misuse and attempted misuse of the patents," "unclean hands," and "inequitable conduct" by the University and CTI "as described in greater detail in [Fujitsu's] Counterclaims." (J.A. at 315-16.) Counterclaims 1-5 were claims for declaratory judgments of invalidity, non-infringement, and unenforceability of the '349 and '400 patents; Counterclaims 6-9 were state-law claims of breach of confidentiality, misappropriation of trade secrets, fraud, and negligent misrepresentation; Counterclaims 10 and 11 were claims of unfair competition based on the allegedly baseless filing by the University and CTI of the ITC action with respect to the '349 and '400 patents; and Counterclaims 12 and 13 were claims of abuse of process in the ITC with respect to the '349 and '400 patents.[2] The counterclaims (unlike

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[2] The district court provided the following summary of Fujitsu's counterclaims:

> First Counterclaim: Claim for declaratory judgment re invalidity of '349 Patent claims;
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> Second Counterclaim: Claim for declaratory judgment re non-infringement of '349 Patent claims;
>
> Third Counterclaim: Claim for declaratory judgment re invalidity of '400 Patent claims;
>
> Fourth Counterclaim: Claim for declaratory judgment re non-infringement of '400 Patent claims;
>
> Fifth Counterclaim: Claim for declaratory judgement [sic] re unenforceability of '349/'400 Patents;
>
> Sixth Counterclaim: Breach of confidentiality based on disclosure of information concerning "pendency and timing" of licensing negotiations between Competitive and Fujitsu;
>
> Seventh Counterclaim: Misappropriation of trade secrets based on disclosure of information "concerning the existence, status, and/or substance of the confidential business discussions" between Fujitsu and Competitive;
>
> Eighth Counterclaim: Fraud based on allegedly intentional conceal-

the affirmative defenses) were originally only asserted against CTI, but Fujitsu amended its answer to include the University as a counterdefendant to all of its asserted counterclaims on October 2, 2002.[3] With respect to Counterclaims 6-9, Fujitsu alleged that CTI acted "with and for" the University, while, for Counterclaims 10 and 11, Fujitsu alleged that both CTI and the University acted "in bad faith" in filing the ITC action. (J.A. at 404-10.)

On October 18, 2002, the University filed a motion to dismiss Counterclaims 5-13, alleging, among other things, that Counterclaims 6-13 violated its Eleventh Amendment sovereign immunity.[4] In an order dated February 24, 2003,

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ment of [ ] and on representation that [ ]

Ninth Counterclaim: Negligent misrepresentation based on same alleged misrepresentations as Eighth Counterclaim;

Tenth Counterclaim: Unfair competition re '349 Patent based on filing of patent infringement complaint before the ITC that was allegedly "baseless" and "without merit";

Eleventh Counterclaim: Unfair competition re '400 Patent based on filing of patent infringement complaint before the ITC that was allegedly "baseless" and "without merit";

Twelfth Counterclaim: Abuse of process re '349 Patent based on initiation of ITC proceeding, knowing '349 Patent was invalid and not infringed, for improper purposes, including to obtain a quick settlement and discovery through the ITC proceeding;

Thirteenth Counterclaim: Abuse of process re '400 Patent based on initiation of ITC proceeding, knowing '349 Patent was invalid and not infringed, for improper purposes, including to obtain a quick settlement and discovery through the ITC proceeding.

Competitive Techs., 286 F. Supp. 2d at 1125-26 (omissions of confidential material in original).

[3] On November 19, 2002, the district court dismissed CTI as a plaintiff, but CTI remains a counterdefendant in the action.

[4] The University admitted that it had waived its Eleventh Amendment sovereign immunity with respect to Counterclaims 1-5 (for declaratory judgments of invalidity, non-infringement, and unenforceability of the

the district court held that it had supplemental jurisdiction over the asserted counterclaims. *Competitive Techs.*, 286 F. Supp. 2d at 1142-43. Considering the claim of Eleventh Amendment immunity, the district court held the University is an "arm of the State" entitled to claim sovereign immunity.[5] *Id.* at 1134. However, it held that the University had waived its sovereign immunity for Fujitsu's counterclaims because they were compulsory:

> The Court concludes that Fujitsu's counterclaims are based on the same underlying factual *allegations* as are its affirmative defenses. In particular, the factual allegations supporting Fujitsu's affirmative defense of unclean hands encompasses all of the conduct alleged in support of Counterclaims Six through Thirteen. Therefore, the Court holds that [the University] has waived its Eleventh Amendment immunity as to Counterclaims Six through Thirteen.

Id. at 1139 (emphasis in original). The district court further noted:

> The Court is also mindful that at this stage of the proceedings, it is impossible to know whether or not Fujitsu's affirmative defenses will be supported by the evidence. If the Court determines at a later stage of this case that Fujitsu's affirmative defenses are not supported by the evidence or are otherwise insufficient as a matter of law, it may be necessary to revisit the question of [the University's] waiver of Eleventh Amendment immunity.

Id. at 1139 n.15. The district court also denied the University's motion to dismiss Counterclaims 6-11 on the alternative ground that they did not state a claim upon which relief

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'349 and '400 patents) because they are compulsory counterclaims. *Competitive Techs.*, 286 F. Supp. 2d at 1127 n.9.

[5] On appeal, Fujitsu does not raise the issue of whether the University is an "arm of the State."

could be granted, *see* Fed. R. Civ. P. 12(b)(6), but it granted the University's motion to dismiss Counterclaims 12 and 13 (for abuse of process in the ITC) for failure to state a claim. *Competitive Techs.*, 286 F. Supp. 2d at 1143-56. The district court dismissed Counterclaim 5 (for a declaratory judgment of unenforceability of the '349 and '400 patents) for failure to state a claim upon which relief could be granted, but only "to the extent that Fujitsu seeks a broader remedy" than a declaration of unenforceability of the patent based on the University's alleged patent misuse. *Id.* at 1161.

On March 11, 2003, the University appealed the district court's denial of the University's motion to dismiss Counterclaims 6-11, alleging that the district court erred in holding that the University had waived its Eleventh Amendment sovereign immunity with respect to those counterclaims. The district court stayed Counterclaims 6-11 against the University, but not CTI, pending this appeal. In an order dated July 31, 2003, which was corrected on August 8, 2003, the district court held, among other things, that claims 5-11 of the '349 patent are invalid for indefiniteness under 35 U.S.C. § 112, ¶ 2. *Competitive Techs. v. Fujitsu Ltd.*, 286 F. Supp. 2d 1161, 1192 (N.D. Cal. 2003). There is no issue with respect to Counterclaims 5, 12, or 13 or with respect to the validity of the claims of the '349 patent on this appeal.

DISCUSSION

Although neither party in its briefs contests this court's jurisdiction, we are nonetheless obligated to determine whether we have jurisdiction over this appeal. "[E]very federal appellate court has a special obligation to 'satisfy itself . . . of its own jurisdiction . . . ,' even though the parties are prepared to concede it." *Bender v. Williamsport Area Sch. Dist.*, 475 U.S. 534, 541 (1986) (quoting *Mitchell v. Maurer*, 293 U.S. 237, 244 (1934)); *see also, e.g., Steel Co. v. Citizens for a Better Env't*, 532 U.S. 83, 95 (1998); *Co-Steel Raritan, Inc. v. Intl Trade Comm'n*, 357 F.3d 1294, 1303 (Fed. Cir.

2004); *Corus Group PLC v. Intl Trade Comm'n*, 352 F.3d 1351, 1357 (Fed. Cir. 2003). We conclude that we do not have jurisdiction.

I

The judgment of the district court is not final under 28 U.S.C. § 1291, and the district court has not issued the certificate required by either Federal Rule of Civil Procedure 54(b) or 28 U.S.C. § 1292(b). The University's theory is that we have jurisdiction under the *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949), exception allowing appeals from certain collateral orders. In *Cohen*, pursuant to a state statute, the corporate defendant in a shareholder derivative action sought indemnity for the expenses and attorney's fees of its defense from the shareholder who had brought the action. *See id.* at 545. The district court refused to apply the state statute, holding that it was not applicable in federal court. *See id.* The Supreme Court held that the district court's order refusing to apply the statute was not a final judgment. *Id.* at 545-46. However, the Court created an exception to the final judgment rule, permitting immediate appeals from orders that "fall in that small class which finally determine claims of right separable from, and collateral to, rights asserted in the action, too important to be denied review and too independent of the cause itself to require that appellate consideration be deferred until the whole case is adjudicated." *Id.* at 546.

The Court subsequently restated the test for an appealable collateral order in *Coopers & Lybrand v. Livesay*, 437 U.S. 463 (1978), as follows: "To come within the 'small class' of decisions excepted from the final judgment rule by *Cohen*, the order must conclusively determine the disputed question, resolve an important issue completely separate from the merits of the action, and be effectively unreviewable on appeal from a final judgment." *Id.* at 468.

The *Cohen* collateral order doctrine has special application

where a defense of sovereign immunity has been asserted. In *Puerto Rico Aqueduct*, the Puerto Rico Aqueduct and Sewer Authority ("the Authority") moved to dismiss the suit against it, claiming that the Eleventh Amendment prohibited the suit because the Authority was an "arm of the State." *See* 506 U.S. at 141. The district court found that the Authority did not qualify for immunity "because of its ability to raise funds for payment of its contractual obligations which do not affect the Commonwealth's funds" and denied the motion to dismiss. *Id.* at 141-42. The Authority appealed, and the court of appeals dismissed the appeal for want of jurisdiction, holding that the order was not appealable because it was not a collateral order and because there was no final judgment. *See id.* at 142. The Supreme Court reversed, holding "that States and state entities that claim to be 'arms of the State' may take advantage of the collateral order doctrine to appeal a district court order denying a claim of Eleventh Amendment immunity." *Id.* at 147. Relying on its earlier decision in *Coopers & Lybrand*, the Court stated: "To come within the 'small class' of . . . *Cohen*, the order must [1] conclusively determine the disputed question, [2] resolve an important issue completely separate from the merits of the action, and [3] be effectively unreviewable on appeal from a final judgment." *P.R. Aqueduct*, 506 U.S. at 144 (quoting *Coopers & Lybrand*, 437 U.S. at 468). The first of these requirements has not been satisfied here.

II

The decision of the district court on the issue of sovereign immunity does not "conclusively determine" that question, and we therefore need not determine whether the second and third parts of the *Coopers & Lybrand* test are satisfied.

The parties agree that Counterclaims 6-11 would normally be barred by sovereign immunity, but Fujitsu argues that the University waived its sovereign immunity by bringing the patent infringement suit against Fujitsu. A state's Eleventh

Amendment "sovereign immunity is 'a personal privilege which it may waive at pleasure.'" *Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 675 (1999) (quoting *Clark v. Barnard*, 108 U.S. 436, 447 (1883)). For example, "when a state files suit in federal court to enforce its claims to certain patents, the state shall be considered to have consented to have litigated in the same forum all compulsory counterclaims, *i.e.*, those arising from the same transaction or occurrence that gave rise to the state's asserted claims." *Regents of the Univ. of N.M. v. Knight*, 321 F.3d 1111, 1126 (Fed. Cir. 2003); *see also Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 946 (Fed. Cir. 1993), *overruled in part on other grounds by Wilton v. Seven Falls Co.*, 515 U.S. 277, 289 (1995). The question is whether Counterclaims 6-11 are compulsory.

Here, the district court determined that "counterclaims should be considered compulsory when they are based on the same 'transaction or occurrence' as the plaintiffs causes of action *and* the affirmative defenses asserted in the action." *Competitive Techs.*, 286 F. Supp. 2d at 1139 (emphasis in original). But it has not "conclusively determine[d]" whether Counterclaims 6-11 are compulsory. The University argued in the district court that these counterclaims are not compulsory because the affirmative defenses themselves should have been dismissed, urging that they "do not allege facts sufficient to constitute an affirmative defense or contain surplus allegations of fact which do not amount to a defense." *Id.* at 1140 n.15.

The University devotes a substantial portion of its briefs on this appeal to strenuously rearguing this same question, urging that there is no basis for claims of patent misuse or unclean hands. With respect to Counterclaims 6-11, the district court refused to address the argument that Fujitsu's affirmative defenses "do not allege facts sufficient to constitute an affirmative defense or contain surplus allegations of

fact which do not amount to a defense" because the argument was improperly raised in a reply brief. *Id.*

Fujitsu concedes that the sovereign immunity inquiry would be altered by any dismissal of its affirmative defenses by the district court as a result of such a finding, stating that "the question of [the University's] waiver of sovereign immunity may need to be revisited at a later stage in the proceedings (*e.g.*, if the counterclaims and affirmative defenses did not survive summary judgment)." (Br. of Defs.-Appellees at 28.)[6] The district court itself expressly noted that "it may be necessary to revisit the question of [the University's] waiver of Eleventh Amendment immunity" if it were to determine "that Fujitsu's affirmative defenses are not supported by the evidence or are otherwise insufficient as a matter of law." *Competitive Techs.*, 286 F. Supp. 2d at 1139-40 n.15. Until the district court resolves the issue of whether to dismiss some or all of Fujitsu's affirmative defenses, the University's entitlement to Eleventh Amendment sovereign immunity has not been "conclusively determine[d]."

Under such circumstances, we do not have jurisdiction over the district court's order under the *Cohen* collateral order doctrine. *See, e.g., Swint v. Chambers County Comm'n*, 514 U.S. 35, 42 (1995). In *Swint*, the Supreme Court noted that "[t]he District Court planned to reconsider its ruling on [a] summary judgment motion before the case went to the jury." *Id.* As a result, the Court held, the order was not an appealable collateral order: "The ruling thus fails the *Cohen* test, which 'disallow[s] appeal from any decision which is tentative, informal or incomplete.'" *Id.* (quoting *Cohen*, 337 U.S. at 546) (alteration in original). Similarly, in *Coopers &*

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[6] Fujitsu also noted that, if the district court were to hold that any of Fujitsu's affirmative defenses were improper, "the easy solution is a motion to strike or other motion to remove the improper defense from the case, with relatedness of any counterclaims then to be judged without reference to the removed defenses." (Br. of Defs.-Appellees at 12.)

Lybrand, the Supreme Court refused to apply the collateral order doctrine in part because the "order [wa]s subject to revision in the District Court." 437 U.S. at 469. Our sister circuits have also held that the *Cohen* collateral order doctrine does not apply when the district court has expressly indicated that its decision is subject to reconsideration:

> [I]n order to meet the requirements of the first *Cohen* prong, the matter must have been finally disposed of so that its decision is not "tentative, informal or incomplete." While there is no simple formula to define finality, an order expressly subject to future reconsideration by the issuing court is generally thought to be nonappealable.

In re "Agent Orange" Prod. Liab. Litig., 745 F.2d 161, 163-64 (2d Cir. 1984) (quoting *Cohen*, 337 U.S. at 546) (citations omitted); *see also, e.g., Metro Servs. Inc. v. Wiggins*, 158 F.3d 162, 165 (2d Cir. 1998) ("Among other things, the requirement of finality ensures that appellate court resources are not dissipated on appeals which, in the fullness of time, are rendered unnecessary by the district court's revision of its own early rulings."); *Lusardi v. Xerox Corp.*, 747 F.2d 174, 177 (3d Cir. 1984) ("[T]he conditional class certification here fails to meet the first prong of the *Cohen* rule, because it is subject to revision by the district court."); 15A Charles Alan Wright et al., *Federal Practice and Procedure* § 3911.1, at 372 (2d ed. 1992) ("Even if an order has been made, there is little justification for immediate appellate intrusion so long as there is a plain prospect that the trial court itself may alter the challenged ruling.").[7] Thus, because the district court's decision in its order is subject to reconsideration, we do not

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[7] *But cf. Microchip Tech. Inc. v. U.S. Philips Corp.*, 367 F.3d 1350, 1355 (Fed. Cir. 2004) (holding that section 16 of the Federal Arbitration Act, 9 U.S.C. § 16 (2000), "allows for appeal of orders denying motions to compel arbitration even when the issue of arbitrability has not been finally decided").

have jurisdiction over the order under the *Cohen* collateral order doctrine.

Considering the issue of waiver at this stage of the proceeding would be particularly inappropriate because the issues remaining for the district court to decide—the propriety of the affirmative defenses—are themselves intimately bound up with the merits. *Cf. Coopers & Lybrand*, 437 U.S. at 469 (holding that issues that are "enmeshed in the factual and legal issues comprising the plaintiffs cause of action" are not appealable under the *Cohen* collateral order doctrine (quoting *Mercantile Nat'l Bank v. Langdeau*, 371 U.S. 555, 558 (1963))); *Cohen*, 337 U.S. at 546 (requiring collateral orders to be "not of such an interlocutory nature as to affect, or to be affected by, decision of the merits of th[e] case").

Given our disposition, we do not decide whether the affirmative defenses and counterclaims should be dismissed on the merits.

CONCLUSION

For the foregoing reasons, we dismiss this appeal for lack of jurisdiction.

DISMISSED

COSTS

No costs.

APPENDIX B

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

03-1380

COMPETITIVE TECHNOLOGIES, INC.,
Plaintiff,

and

BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,
Plaintiff-Appellant,

v.

FUJITSU, LIMITED and FUJITSU HITACHI PLASMA DISPLAY LIMITED,
Defendants-Appellees,

and

FUJITSU AMERICA, INC., FUJITSU GENERAL AMERICA CORP., FUJITSU GENERAL LIMITED, and FUJITSU MICROELECTRONICS, INC.,
Defendants.

Morgan Chu, Irell & Manella LLP, of Los Angeles, California, filed a combined petition for rehearing and rehearing en banc for plaintiff-appellant. With him on the petition were *Joseph M. Lipner* and *Perry Goldberg*.

Karen L. Hagberg, Morrison & Foerster LLP, of New York, New York, filed a response to the petition for defendants-appellees. With her on the response were *Preston Moore* and *Jun Tsutsumi*.

Appealed from: United States District Court for the Northern District of California

Magistrate Judge Joseph C. Spero

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

[Filed Jan. 3, 2005]

03-1380

COMPETITIVE TECHNOLOGIES, INC.,
Plaintiff,

and

BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,
Plaintiff-Appellant,

v.

FUJITSU LIMITED and FUJITSU HITACHI PLASMA DISPLAY LIMITED,
Defendants-Appellees,

and

FUJITSU AMERICA, INC., FUJITSU GENERAL AMERICA CORP., FUJITSU GENERAL LIMITED, and FUJITSU MICROELECTRONICS, INC.,
Defendants.

ON PETITION FOR REHEARING

Before MAYER,* GAJARSA, and DYK, *Circuit Judges*.

DYK, *Circuit Judge*.

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* Judge Haldane Robert Mayer vacated the position of Chief Judge on December 24, 2004.

ORDER

The Board of Trustees of the University of Illinois (the "University") petitions for rehearing of our earlier decision dismissing the University's appeal for lack of jurisdiction. We deny the petition.[1]

The University urges that our decision is contrary to the Fifth Circuit decision in *Sherwinski v. Peterson*, 98 F.3d 849 (5th Cir. 1996). We disagree. In *Sherwinski*, the district court denied the motion to dismiss by the Texas Department of Criminal Justice (the "Department"), stating that "'[u]ntil the factual and legal basis of the case has been further developed, no defendants will be dismissed.'" *Id.* at 851 (alteration in original). The Fifth Circuit noted that, although the district court's order did not expressly find that the Department was not immune from suit, "the end result is the same" because the Department did not receive the dismissal to which it was entitled. *Id.* Thus, *Sherwinski* is not a case in which the Eleventh Amendment immunity issue itself was expressly left open to reconsideration by the district court, as in this case; rather, the district court in *Sherwinski* declined to recognize the Department's immunity defense and refused to dismiss.

Second, the University urges that the Second Circuit decision in *In re "Agent Orange" Product Liability Litigation*, 745 F.2d 161 (2d Cir. 1984), on which we relied, *see Competitive Techs.. Inc. v. Fujitsu Ltd.*, 374 F.3d 1098, 1104 (Fed. Cir. 2004), is no longer good law. While aspects of *Agent Orange* have been called into question by later decisions of the Second and Ninth Circuits, *see Dibble v. Fenimore*, 339 F.3d 120, 124 (2d Cir. 2003); *Lutz v. Sec'y of the Air Force*, 944 F.2d 1477; 1481-82 (9th Cir. 1991), those

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[1] Contrary to the response by Fujitsu Limited and Fujitsu Hitachi Plasma Display Limited (collectively, "Fujitsu") to the University's petition for rehearing (*see* Response of Defendants-Appellees at 4-5), we have not decided any aspect of the sovereign immunity dispute.

later decisions did not call into question those portions of *Agent Orange* on which we relied, *see Competitive Techs.*, 374 F.3d at 1104. Neither of the later decisions held or suggested that a tentative decision of the district court on immunity grounds, expressly subject to further consideration because of unresolved issues in the case, meets the first prong of the *Cohen* test. *See Cohen v. Beneficial Indus. Loan Corp.*, 337 U.S. 541, 546-47 (1949). Indeed, both *Dibble* and *Lutz* expressly distinguished *Agent Orange* under the first prong of *Cohen*. In *Lutz*, the court stated:

> In *Agent Orange* the district court had expressly stated that its order was "tentative" and that the government could "renew its motion to dismiss at any time before or during trial as further evidence and legal developments suggest." 745 F.2d at 164. Here, by contrast, the district court appears to have determined conclusively the question of whether the defendants' actions were "incident to military service," thus meeting the first prong.

944 F.2d at 1481. Similarly, the court in *Dibble* noted that "the order appealed from in *Agent Orange* was 'tentative' in its wording, thus raising doubt whether it 'conclusively determined' the question of immunity." 339 F.3d at 124. As we have held, the decisions of the Supreme Court in *Coopers & Lybrand v. Livesay*, 437 U.S. 463 (1978), and *Swint v. Chambers County Commission*, 514 U.S. 35 (1995), which was decided after *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139 (1993), make clear that a non-final resolution does not satisfy the *Cohen* test. Thus, the application of the first prong of *Cohen* in *Agent Orange* has not been undermined by subsequent decisions of the Supreme Court or other courts of appeals.

Accordingly,

IT IS ORDERED THAT:

The Petition for Rehearing is denied.

Jan. 3, 2005
Date

FOR THE COURT

/s/ Timothy B. Dyk
TIMOTHY B. DYK
Circuit Judge

APPENDIX C

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

[Filed Feb. 24, 2003]

No. C-02-1673 JCS

COMPETITIVE TECHNOLOGIES, *et al.*,
Plaintiff(s),

v.

FUJITSU LIMITED, *et al.*,
Defendant(s).

CORRECTED ORDER GRANTING IN PART AND DENYING IN PART MOTIONS BY COMPETITIVE TECHNOLOGIES AND UI AND DENYING AS MOOT FUJITSU'S CONDITIONAL CROSS-MOTION
[Docket Nos. 44, 162, and 210]

I. INTRODUCTION

On Friday, December 20, 2002, at 9:30 a.m., the following motions came on for hearing:

- Competitive Technologies' Motion To Dismiss Under Federal Rules Of Civil Procedure 12(b)(6) and 12(b)(7)[1];
- The University of Illinois'

  (1) Motion To Dismiss Counterclaims 5-13 Pursuant To Rule 12(b)(1) And/Or 12(b)(6);

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[1] The Court assumes that the reference to Rule 12(6)(7) in the title of this motion is a typographical error and that the motion is brought pursuant to Rule 12(b)(6) and 12(b)(1).

(2) Special Motion To Strike Counterclaims 10-13 Pursuant To CCCP § 425.16; And

(3) Motion To Strike The Tenth Affirmative Defense Pursuant To Rule 12(f);

Fujitsu Limited's and Fujitsu Hitachi Plasma Display Limited's Conditional Cross-Motion To Set A Schedule For A Probability Showing Pursuant To Cal. Code. Civ. Proc. § 425.16(6).[2]

For the reasons stated below, the UI Motion and the Competitive Motion are GRANTED in part and DENIED in part. The Fujitsu Conditional Cross-Motion is DENIED as moot.

II. BACKGROUND

A. *Facts*[3]

This case involves two patents related to an electronic circuit for plasma display panels ("PDPs")—U.S. Patent No.s 4,866,349 ("the '349 Patent') and 5,081,400 ("the '400 Patent'). The '349 Patent, entitled "Power Efficient Sustain Drivers and Address Drivers for Plasma Panel," was issued to UI as assignee on September 12, 1989 and lists as inventors

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[2] Hereinafter, the motions listed above will be referred to as "the Competitive Motion," "the UI Motion" and the "Fujitsu Conditional Cross Motion," respectively.

[3] The parties agreed at oral argument that they have no objection to the Court taking judicial notice of any of the documents that were attached to the following requests for judicial notice: 1) Competitive's Request For Judicial Notice, filed June 28, 2002 [Docket No. 46]; 2) Fujitsu's Request For Judicial Notice, filed August 30, 2002, in support of its consolidated opposition to Competitive's Motion To Dismiss [Docket No. 82]; 3) UI's Request For Judicial Notice,. filed October 18, 2002, in support of UI's Motion To Dismiss [Docket No. 164]; 4) UI's Request For Judicial Notice, filed November 19, 2002, in support of UI's Reply [Docket No. 244]. Accordingly, the Court takes judicial notice of all of those documents, pursuant to F. R. Evid. 201.

Larry J. Weber, Kevin W. Warren and Mark B. Wood. Exh. A to Amended Complaint For Patent Infringement ("Amended Complaint"). The '400 Patent, also entitled "Power Efficient Sustain Drivers and Address Drivers for Plasma Panel," was issued to UI as assignee on January 14, 1992 and lists as inventors the same three individuals. Exh. B to Amended Complaint.

In 1985, UI entered into a Servicing Agreement ("the 1985 Servicing Agreement") with University Patents, Inc. ("UPI") granting UPI exclusive authority as UI's licensing agent. See Servicing Agreement, Exh. C to Complaint filed in International Trade Commission ("ITC Complaint"), attached as Exh. 5 to The University of Illinois' Request For Judicial Notice, filed October 18, 2002 [docket no. 164]; *see also* Amended Complaint For Patent Infringement ("Amended Complaint") at ¶ 13. UPI changed its name to Competitive Technologies, Inc. in 1994. Exh. A to ITC Complaint, attached as Exh. 5 to The University of Illinois' Request For Judicial Notice, filed October 18, 2002 [docket no. 164]; *see also* Amended Complaint at ¶ 13.

In 1995, Competitive and Matsushita Electrical Industrial Company, Ltd. ("Matsushita") entered into a non-exclusive licensing agreement for the '349 and '400 Patents, among others. Matsushita Licensing Agreement, Exh. A to Declaration of Steven W. Richeson In Support Of Counterclaimants' Consolidated Opposition To Competitive Technologies, Inc.'s Motions To Dismiss ("Richeson Declaration").[4] In addition, in 1997, Matsushita and Competitive

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[4] Although Fujitsu did not request that the Court take judicial notice of the 1995 agreement, the Court takes judicial notice of the existence of this document—though not the truth of any assertion contained in that agreement—pursuant to Fed. R. Evid. 201(b)(2). *See United States v. Wagner*, 19 Fed. Appx. 542, 543 n. 1 (holding that judicial notice of manual was proper under Fed. R. Evid. 201(b) but that court could not take judicial notice of truth of contents of that document because it contained disputed

entered into a Support Agreement under which Competitive agreed to pay Matsushita 20% of any royalty income Competitive received from "any licensing and/or sale of PDP Patents" for which Matsushita obtained a Japanese patent. Support Agreement, Exh. B to Richeson Decl.[5]

Beginning in 1995 and continuing until 1999, Competitive also engaged in licensing negotiations for the '349 and '400 Patents with Fujitsu. Defendants' Amended Answer To Amended Complaint And Counterclaims ("Amended Answer") at ¶¶ 48, 55. Some of these negotiations were conducted by Competitive's "agent and affiliate in Japan," Innovation Partners International, Inc. Amended Answer at ¶ 98. According to Fujitsu, during the course of these negotiations, Competitive revealed to Fujitsu its licensing agreement with Matsushita but did not disclose the existence of the 1997 Support Agreement. Amended Answer at ¶ 52. Fujitsu also alleges that during the course of its negotiations with Competitive, Competitive revealed information to Matsushita regarding the pendency and timing of its negotiations with Fujitsu, thereby giving Matsushita "a competitive advantage" vis-a-vis Fujitsu. Amended Answer at ¶ 87. The negotiations between Competitive and Fujitsu were unsuccessful.

In August, 2000, Matsushita and Fujitsu entered into a "comprehensive cross-license . . . concerning PDP patents." Amended Answer at ¶ 49. The purpose of this cross-license

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facts). The Court notes that neither Competitive nor UI objected to either the authenticity of this document or to the Court considering the document in these motions.

[5] Again, the Court takes judicial notice of the existence of the 1997 agreement pursuant to Fed. R. Evid. 201(b)(2), even though Fujitsu did not include this document in any of the requests for judicial notice it filed in support of its briefs on the Motions addressed in this Order. Neither Competitive nor UI objected to the authenticity of this document or to its consideration by the Court.

was to achieve "'patent peace' between the two companies." *Id.* Fujitsu alleges that, had it been aware of the 1997 Support Agreement between Competitive and Matsushita, it would not have entered into the cross-license with Matsushita without "addressing Matsushita's interest in the '349 and '400 patents." Amended Answer at ¶ 54.

In September, 2002, (well after litigation of this action had commenced), UI and Competitive amended the Servicing Agreement. See Exh. A to Second Declaration of Reynaldo C. Barcelo in Support of the University's Opposition and Conditional Cross-Motion ("Second Barcelo Decl.") [Docket No. 127].[6] Pursuant to the Amended Servicing Agreement, Competitive's rights in the '349 and '400 Patents were terminated and reverted to UI. *Id.* Further, Competitive assigned to Ul "any and all rights it may have to bring and maintain suit for past infringement." *Id.*

B. *Procedural Background*

1. The ITC Proceeding and the Illinois Action

On December 21, 2000, UI and Competitive filed an action in federal district court in the Central District of Illinois against the Fujitsu defendants, alleging infringement of the '349 and '400 Patents ("the Illinois action"). Two days later, on December 23, 2000, Competitive and the University lodged a complaint with the International Trade Commission ("ITC"), alleging that Fujitsu violated section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, by importing goods that infringed the same patents. *In the Matter of Certain Plasma Display Panels, Plasma Panel Components, and Products Containing Same*, ITC Investigation No. 337-TA-445. On February 2, 2001, the district court stayed the Illinois action pending resolution of the claims pending before the ITC. *See*

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[6] The Court takes judicial notice of the existence of the Amended Servicing Agreement, pursuant to F. R. Evid. 201(b).

February 2, 2001 Order Granting Motion For A Mandatory Stay Provided By Statute.

The ITC initiated an investigation on January 22, 2001. Some discovery was conducted. Amended Answer at ¶ 63. On June 26, 2001, Competitive and UI withdrew their complaint before the ITC. *Id.* As a result, on September 25, 2001, the stay in the Illinois action was lifted.

After the stay was lifted in the Illinois action, Fujitsu filed four motions in that action: 1) a motion to dismiss for lack of personal jurisdiction; 2) a motion to dismiss for improper venue; 3) a motion seeking transfer to the Northern District of California; 3) a motion to dismiss UI for lack of standing. The district court granted Fujitsu's motion to transfer on April 2, 2002 and the Illinois action was transferred to this Court. The court did not rule on the remaining three motions.[7]

2. The Delaware Action and the JPML Petition

On September 10, 2001, Fujitsu brought an action against Competitive and another entity, Plasmaco, in federal district court in Delaware ("the Delaware action"), asserting claims related to the '349 and '400 Patents. Competitive brought motions to dismiss pursuant to Fed. R. Civ. P. 12(b)(6), to consolidate the Delaware action with the Illinois action pursuant to 28 U.S.C. § 1404(a), or to stay the Delaware action pending resolution of the Delaware action. Similarly, Plasmaco brought a motion to dismiss under Fed. R. Civ. P. 12(b)(6). Competitive also petitioned the Judicial Panel on

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[7] After transfer to this Court, Fujitsu withdrew its motion to dismiss for lack of personal jurisdiction. *See* May 21, 2002 Stipulated Order [Docket No. 21]. Subsequently, this Court denied as moot the motion to dismiss for lack of standing. See November 19, 2002 Stipulated Order [Docket No. 236]. Because Competitive had assigned all of its rights to UI, Competitive's infringement claims were dismissed, as were Fujitsu's first five counterclaims against Competitive. *See* November 19, 2002 Order [Docket No. 242].

Multidistrict Litigation ("JPML") to consolidate the Illinois and the Delaware actions under 28 U.S.C. § 1407(a).

The JPML denied the petition to consolidate on April 16, 2002. On April 19, 2002, the district court in Delaware stayed the Delaware action pending resolution of the action in this Court. On May 22, 2002, Fujitsu filed a notice of dismissal pursuant to Fed. R. Civ. P. 41(a). On the same day, Fujitsu filed its answer in this Court, asserting as counterclaims against Competitive the same claims as had been asserted in the Delaware action. Competitive brought a motion seeking to vacate Fujitsu's voluntary dismissal in the Delaware action on August 23, 2002. That motion was denied on August 30, 2002, and the Delaware case was closed.

C. *Fujitsu's Counterclaims*

Fujitsu asserted thirteen counterclaims against Competitive and UI in this action. The counterclaims are the same as to both UI and Competitive.[8] Fujitsu has asserted the following counterclaims:

First Counterclaim:	Claim for declaratory judgment re invalidity of '349 Patent claims;
Second Counterclaim:	Claim for declaratory judgment re non-infringement of '349 Patent claims;
Third Counterclaim:	Claim for declaratory judgment re invalidity of '400 Patent claims;
Fourth Counterclaim:	Claim for declaratory judgment re non-infringement of '400 Patent claims;

[8] As noted above, the first five counterclaims, for declaratory relief, were dismissed as to Competitive when Competitive's patent infringement claims were dismissed. *See* 11/19/02 Order.

Fifth Counterclaim:	Claim for declaratory judgement re unenforceability of '349/'400 Patents;
Sixth Counterclaim:	Breach of confidentiality based on disclosure of information concerning "pendency and timing" of licensing negotiations between Competitive and Fujitsu;
Seventh Counterclaim:	Misappropriation of trade secrets based on disclosure of information "concerning the existence, status, and/or substance of the confidential business discussions" between Fujitsu and Competitive;
Eighth Counterclaim:	Fraud based on allegedly intentional concealment of 1997 Support Agreement between Competitive and Matsushita, which gave Matsushita a "significant financial stake in the '349 and '400 patents" and on representation that Matsushita was "simply a non-exclusive licensee of the '349 patent and the '400 patent";
Ninth Counterclaim:	Negligent misrepresentation based on same alleged misrepresentations as Eighth Counterclaim;
Tenth Counterclaim:	Unfair competition re '349 Patent based on filing of patent infringement complaint before the ITC that was allegedly "baseless" and "without merit";

Eleventh Counterclaim:	Unfair competition re '400 Patent based on filing of patent infringement complaint before the ITC that was allegedly "baseless" and "without merit";
Twelfth Counterclaim:	Abuse of process re '349 Patent based on initiation of ITC proceeding, knowing '349 Patent was invalid and not infringed, for improper purposes, including to obtain a quick settlement and discovery through the ITC proceeding;
Thirteenth Counterclaim:	Abuse of process re '400 Patent based on initiation of ITC proceeding, knowing '349 Patent was invalid and not infringed, for improper purposes, including to obtain a quick settlement and discovery through the ITC proceeding.

D. *The Motions*

1. Competitive's Motion

In its Motion, Competitive seeks dismissal of Counterclaims Six through Thirteen. First, Competitive asserts that this Court does not have supplemental subject matter jurisdiction over these counterclaims because they are not sufficiently related to UI's patent infringement claims. Competitive argues further that even if the Court *could* exercise supplemental jurisdiction over these counterclaims, it should decline to do so for a variety of reasons.

Second, Competitive asserts that Fujitsu fails to state a claim under Fed. R. Civ. P. 12(b)(6) as to Counterclaims Six through Thirteen. In particular, Competitive makes the following arguments: 1) Fujitsu fails to state a claim for

breach of confidentiality (Counterclaim Six) because Fujitsu does not allege facts showing a duty on the part of Competitive to maintain confidentiality; 2) Fujitsu fails to state a claim for misappropriation of trade secrets (Counterclaim Seven) because Fujitsu has alleged no facts showing the existence of any trade secret; 3) Fujitsu fails to state a claim for fraudulent misrepresentation (Counterclaims Eight) because it has not alleged the claim with particularity and has not alleged either that the misrepresentation was made for the purpose of inducing Fujitsu to act on it or that Fujitsu was damaged as a result of its reliance on the alleged misrepresentation; 4) Fujitsu fails to state a claim for negligent misrepresentation (Counterclaim Nine) because Fujitsu does not allege that the misrepresentations were made for the guidance of Fujitsu or that Fujitsu relied on the statements, and because Competitive owed no legal duty to Fujitsu to avoid wrongdoing; and 5) Fujitsu fails to state a claim for unfair competition and abuse of process (Counterclaims Ten through Thirteen) based on the *Noerr-Pennington* doctrine, federal preemption and because Fujitsu has alleged insufficient facts to state a claim for unfair competition or abuse of process.

In its Opposition, Fujitsu argues that this Court has jurisdiction over Counterclaims Six through Thirteen on the basis of diversity, and therefore, that Competitive's arguments concerning supplemental jurisdiction are superfluous. In response to Competitive's assertion that Fujitsu fails to state a claim as to Counterclaims Six through Thirteen, Fujitsu makes the following arguments: 1) Fujitsu has stated a claim for breach of confidentiality (Counterclaim Six) because there was an implied-in-fact contract between Competitive and Fujitsu, even if there was no written contract, under which their licensing negotiations were not to be revealed to third parties; 2) Fujitsu has stated a claim for misappropriation of trade secrets (Counterclaim Seven) because Fujitsu has alleged sufficient facts to establish that

the pendency and substance of negotiations between Competitive and Fujitsu constituted a trade secret; 3) Fujitsu has alleged sufficient facts to satisfy all of the required elements for intentional and negligent misrepresentation (Counterclaims Eight and Nine); and 4) Fujitsu has stated claims for unfair competition and abuse of process (Counterclaims Ten through Thirteen) because there is no federal preemption, the *Noerr-Pennington* doctrine does not apply, and Fujitsu has alleged sufficient facts to state claims for unfair competition and abuse of process.

In its Reply, Competitive asserts that there is no jurisdiction over Fujitsu's Counterclaims Six through Thirteen because this Court does not have personal jurisdiction over Competitive as to those claims and venue in this Court is improper. Competitive argues further that the Court should decline to exercise supplemental jurisdiction over these counterclaims.

2. UI's Motion

UI raises many of the issues that are raised in the Competitive Motion, as well as a number of additional issues. First, UI asserts that it is an arm of the state and therefore, that it enjoys Eleventh Amendment immunity. UI argues further that because Counterclaims Six through Thirteen are permissive rather than compulsory, UI has not waived Eleventh Amendment immunity as to these counterclaims by asserting patent infringement claims against Fujitsu.[9] Second, UI asserts that there is no subject matter jurisdiction over Counterclaims Six through Thirteen. In particular, UI asserts that: 1) there is no diversity jurisdiction because UI is not a citizen for the purposes of diversity; and 2) there is no supplemental jurisdiction because these counterclaims do not arise out of the same "case or controversy" as UI's claims, as

[9] UI concedes in its Motion that it has waived sovereign immunity as to Counterclaims One through Five. UI Motions at 6.

required under 28 U.S.C. § 1367(a). UI argues further that even if these counterclaims do arise out of the same "case or controversy," this Court should decline to exercise jurisdiction over these counterclaims pursuant to 28 U.S.C. § 1367(c), on the basis that they are likely to "substantially predominate" over the patent infringement claims. Third, UI asserts that Counterclaims Six through Thirteen should be dismissed for failure to state a claim, asserting many of the same arguments that are asserted by Competitive. Fourth, UI argues that Counterclaim Five (seeking a declaration that two patents are unenforceable based on patent misuse) should be dismissed and Fujitsu's Tenth Affirmative Defense (inequitable conduct) should be stricken under the Federal Circuit's decision in *Aptix Corp. v. Quickturn Design Systems*, Inc., 269 F.3d 1369 (Fed. Cir. 2001). Finally, UI asserts that Counterclaims Ten through Thirteen are barred by California state law privileges, including the California anti-SLAPP statute.

In its Opposition, Fujitsu makes the following arguments: 1) UI is not an arm of the state for the purposes of Eleventh Amendment immunity, and even if it is, UI has waived sovereign immunity as to Fujitsu's counterclaims; 2) UI is a citizen for the purposes of diversity jurisdiction and therefore, there is diversity jurisdiction over all of the counterclaims; 3) even if there is no diversity jurisdiction, the Court may exercise supplemental jurisdiction over Counterclaims Six through Thirteen; 4) Counterclaims Six through Thirteen properly state claims; 5) California state law privileges do not apply to Counterclaims Ten through Thirteen, and even if they did, those privilege do not bar these counterclaims; and 6) neither the Fifth Counterclaim nor the Tenth Affirmative Defense are barred by the Federal Circuit's decision in *Aptix v Quickturn*, 269 F. 3d 1369 (Fed. Cir. 2001).

3. Fujitsu's Conditional Cross-Motion

In its Conditional Cross-Motion, Fujitsu argues that if the Court determines that California's anti-SLAPP statute applies, the Court should delay setting a probability hearing to allow for discovery. UI, on the other hand, asserts that if the anti-SLAPP statute applies, a probability determination can be made without waiting for any discovery to be completed.

III. ANALYSIS

A. *UI's Entitlement to Eleventh Amendment Immunity*

1. Legal Standard

The Eleventh Amendment provides as follows:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

U.S. Const. amend. XI. The Supreme Court has held that the Eleventh Amendment stands for the proposition that "federal jurisdiction over suits against unconsenting States was not contemplated by the Constitution when establishing the judicial power of the United States." *Seminole Tribe v. Florida*, 517 U.S. 44, 54 (1986) (quotation omitted). To qualify for Eleventh Amendment immunity, a defendant must establish that it is both an arm of the state and that its right to immunity has neither been waived by the state nor abrogated by Congress.

a. *Arm of the State*

The Eleventh Amendment protects the state and its agencies from being sued, but does not protect municipalities and other political subdivisions of the state. *Mt. Healthy City Sch. Dist. Bd. of Educ. v. Doyle*; 429 U.S. 274, 280 (1977). To determine whether or not an entity is an arm of the state

for the purposes of the Eleventh Amendment, courts look to a number of factors, the most important of which is "whether the named plaintiff has such independent status that a judgment against the defendant would not impact the state treasury." *Jackson v. Hayakawa*, 682 F.2d 1344, 1349 (9th Cir. 1982). Other factors include "performance by the entity of an essential government function, its ability to sue or be sued, its power to take property in its own name or in the name of the state, and its corporate status." *Mukaida v. Hawaii*, 159 F. Supp. 2d 1211, 1221 (D. Haw. 2001) (citing to *Jackson*, 682 F.2d at 1349) (holding that the University of Hawai'i was an arm of the state for purposes of Eleventh Amendment).

The "facts" which form the basis of the immunity analysis are found in state law. To determine whether "a particular state agency has the same kind of independent status as a county or is instead an arm of the State, and therefore 'one of the United States,' within the meaning of the Eleventh Amendment . . . [the court must consider] the provisions of state law that define the agency's character." *Regents of the Univ. of Cal. v. Doe*, 519 U.S. 425, 429 n.5 (1997); *see also Doe v. Lawrence Livermore Nat'l Lab.*, 65 F. 3d 771, 777 (9th Cir. 1995) (noting in dissent that by focusing on who is legally obligated rather than on who actually pays, the court can resolve the threshold question of Eleventh Amendment immunity based on the pleadings and the state statutes), *rev'd* 519 U.S. 425 (1997) (citing to dissent with approval). Thus, for example, when determining whether or not a judgment will be satisfied from state funds, the Supreme Court instructs that the court is to ask whether, under state law, a judgment would impose *legal liability* on the state. *Id.* The Court in *Doe* held that it was irrelevant to Eleventh Amendment immunity analysis that the judgment might not actually be paid by the state, for example, if the judgment would be covered by insurance proceeds or there was a right to indemnification. *Id.* at 431.

b. *Waiver*

A defendant that establishes that it is an arm of the state is entitled to sovereign immunity unless one of two exceptions applies. First, Congress may explicitly abrogate Eleventh Amendment sovereign immunity in exercising its power to enforce the Fourteenth Amendment.[10] *College Savings Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 669 (1999). Second, a state may waive its sovereign immunity by consenting to suit. *Id.* Such a waiver may be based on a "clear declaration" by the state that it consents to federal jurisdiction or may be based on the state's conduct. *Id.* at 675-676; *see also In re Bliemaster*, 296 F.3d 858, 860 (9th Cir. 2002).

Waiver based on conduct is found in a variety of situations. First, it is well-established that sovereign immunity is waived where the state invokes the jurisdiction of the federal courts by filing claims in federal court *See Lapides v. Bd. of Regents of the Univ. Sys. of Ga.*, __ U.S. __ (2002); 122 S. Ct. 1640, 1643 (holding that for the purposes of waiver of Eleventh Amendment immunity, a state invokes the jurisdiction of a federal court—and thus waives immunity—not only when it files claims in federal court but also when it removes to federal court claims that have been filed against it in state court). Where a state invokes the jurisdiction of the federal courts, it waives sovereign immunity not only as to the state's claims, but also as to counterclaims that arise out of the same transaction or occurrence, that is, compulsory counterclaims. *In re Lazar*, 237 F.3d 967, 978 (9th Cir. 2001) (citing to cases decided by the Fourth, Seventh and Tenth Circuits on this issue and to Fed. R Civ. P. 13(a)); *see also Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931 (Fed. Cir. 1993) (holding in patent infringement action that state's sovereign immunity

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[10] Fujitsu does not argue that Congress has abrogated Eleventh Amendment immunity as to Counterclaims Six through Thirteen.

was waived as to its own patent infringement claims and compulsory counterclaims brought against it but not as to permissive counterclaims).[11] Even where the state has not affirmatively invoked the jurisdiction of the federal courts, its participation in litigation brought against it may result in waiver if the state's participation is incompatible with an intent to preserve its sovereign immunity. *In re Bliemaster*, 296 F.3d at 860.

2. Is UI an Arm of the State for Purposes of Sovereign Immunity?

UI asserts that it is an arm of the state for the purposes of sovereign immunity, relying on Seventh Circuit cases that have reached that conclusion. *See Cannon v. Univ of Health Scis./The Chicago Med. Sch.*, 710 F.2d 351, 356 (7th Cir. 1983) (holding that claims against the Board of Trustees of the University of Illinois were barred by the Eleventh Amendment); *Kroll v. Bd of Trs of the Univ. of Ill.*, 934 F.2d 904, 908 (7th Cir. 1991) (citing to *Cannon* and holding that Board of Trustees of the University of Illinois is a state agency and therefore subject to Eleventh Amendment immunity); *see also Loeffler v Univ. of Ill. at Chicago*, 36 F. Supp. 2d 1058 (N. D. III. 1999) (citing to *Cannon* and holding that

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[11] The Ninth Circuit has not reached the question of whether the scope of the waiver with respect to compulsory counterclaims is limited to recoupment of damages obtained by the state or goes further to allow an affirmative award of damages against the state. *Id.* However, the Federal Circuit and the Seventh Circuit have held that the waiver extends only to the extent of defeating the state's claim. *See In re Lazar*, 237 at F.3d at 978 (citing to *Jones v. Yorke (in re Friendship Medical Center Ltd)*, 710 F.2d 1297, 1301 (7th Cir. 1983); *Genentech*, 998 F.2d at 946. In addition, some district courts in the Ninth Circuit have concluded that the waiver would only allow for recoupment. *See, e.g., California Independent System Operator Corp. v. Reliant Energy Services, Inc.*, 181 F. Supp. 2d 1111, 1124 (E.D. Cal. 2001) (stating in dicta that any possible waiver of sovereign immunity would be limited to "compulsory recoupment counterclaims").

the University if Illinois is entitled to Eleventh Amendment immunity). Fujitsu argues that these cases do not apply the "searching multi-factor analysis that is required for a proper determination of whether an entity is the State" and that if such an analysis is applied, it points to the conclusion that the University of Illinois is not an arm of the state. The Court concludes that UI is an arm of the state of Illinois.

In *Cannon*, 710 F.2d at 356, the Seventh Circuit held that UI is a state agency and therefore, entitled to Eleventh Amendment immunity. In support of this conclusion, the court cited a single state court decision, *Elliott v. Univ of Ill.*, 365 Ill. 338 (1936). The court also noted that the district court had relied on the "powers and duties" of the Board of Trustees, as set forth in chapter 144 of the Illinois Revised Statutes, currently codified at 110 ILCS § 305 ("the University of Illinois Act"), in support of its conclusion that UI was immune under the Eleventh Amendment. However, the court in *Cannon* did not explain what "powers and duties" gave rise to such a result Nor did the court conduct any analysis of its own on this question. 710 F.2d at 356. The court also concluded, without analysis or citation of any specific state law, that "because the state universities are the alter ego of the state, any damage award chargeable to university assets is an award against the state itself." *Id.* at 357.

In *Elliot* (the case on which the *Cannon* court relied), the plaintiff challenged an Illinois law, the Accountancy Act, which authorized UI to determine the qualifications for certified public accountants and administer an examination in accounting for those seeking to be designated as certified public accountants. 365 Ill. at 340. The plaintiff argued, among other things, that the Accountancy Act was invalid because it conferred ultra vires powers on UI. *Id.* at 343. The court rejected that argument:

> Much time is devoted in the argument to the contention that the powers conferred on the University in holding

> examinations and granting certificates are ultra vires. The University is not a private corporation but is an agency of the State. It was founded by an act of the Legislature approved February 28, 1867 (Smith-Hurd Ill. Stats. c. 144, § 22 et seq. and notes), as the "Illinois Industrial University." In 1885 (Smith-Hurd Ill. Stats. c. 144, § 48) its name was changed to "University of Illinois." It is maintained by interest from its permanent endowment fund arising from grants of land from the United States and by appropriations from the General Assembly. It is governed by a board of trustees elected by the people. It is managed by a corporation created by the State, *but the State retains the power of selecting trustees, and may through other agents than the trustees sell and dispose of its property or change its charter as the Legislature may direct. People v. University of Illinois*, 328 Ill. 377, 382, 157 N.E. 811. The Legislature had full power to direct the University, as the state's agent, to perform the duties enjoined upon it by the act of 1903.

Id. at 343-344 (emphasis added).

Although the language of *Elliott* supports the conclusion that UI is an arm of the state, the court in *Elliott* did not directly address the question of whether a judgment against UI would result in expenditure of state funds, which is an important consideration in determining whether an entity is entitled to Eleventh Amendment immunity. *See Jackson v. Hayakawa*, 682 F.2d at 1349. This issue is addressed in *People ex rel. Olmsted v. State of Illinois*, 328 Ill. 377 (1928).

Olmsted lends support to the conclusion that under Illinois law a judgment against the University is the same as a judgment against the state because the University is the alter ego of the state. In *Olmsted*, the court explicitly held that UI's

property is state property. *Id.* In particular, the court in *Olmsted* stated as follows:

> Does this property belong to the state? The University of Illinois was founded by an act of the Legislature approved February 28, 1867 (Pub. Laws 1867, p. 123), as the Illinois Industrial University. In 1885 (Laws 1885, p. 252), its name was changed to the University of Illinois. It is maintained by interest from its permanent endowment fund arising from grants of land from the United States and by appropriations made by the General Assembly. It is governed by a board of trustees elected by the people. Though the state has created a body corporate to control the University of Illinois, yet the state retains the power of selecting trustees, and may, through other agents than the trustees, sell and dispose of the property of the institution or change its charter as the Legislature may direct. *The property of the University of Illinois, though held by the board of trustees, belongs to the state. People v. Board of Trustees*, 283 Ill. 494, 119 N. E. 595; *Spalding v. People*, 172 Ill. 40, 49 N. E. 993; *Board of Trustees v. Champaign County*, 76 Ill. 184; *Thomas v. Industrial University*, 71 Ill. 310. While the state, through its board of trustees, is virtually a trustee of the property and funds . . . the university for the use of the people, it nevertheless has power to resume the fund and to use it for the purposes designated. *City of Chicago v. People*, 80 Ill. 384.

Id. at 382 (italics added). Under this precedent, as a matter of law, the property of UI is the property of the state. A judgment against UI, therefore, necessarily runs against state property.

Fujitsu argues that UI is not entitled to sovereign immunity because it has been held to be separate and independent from the state, citing to *People ex rel. Bd. of Trs. of Univ of Ill. v. Barrett*, 382 Ill. 321 (1943). *Barrett* does not support

Fujitsu's position. To the contrary, much of the discussion in *Barrett* supports the opposite conclusion. In *Barrett*, a dispute arose as to whether UI should be represented in pending litigation by the Attorney General of the state of Illinois or by attorneys who had been hired by UI's Board of Trustees. *Id.* at 324. The Attorney General attempted to fire two attorneys who had been hired by the Trustees. The Trustees brought a petition for mandamus seeking to compel the Auditor of Public Accounts to pay the attorneys' salaries and to prevent the Attorney General from interfering with their work. *Id.* The Court held that UI was entitled to retain its own attorneys because, "[i]n the sense that it is a department or branch of the state government, [UI] is not an agency or instrumentality of the State." *Id.* at 347. Rather, the court held, UI "[i]s a separate corporate entity, which functions as a public corporation." *Id.*

Fujitsu relies on the language quoted above in support of its argument that UI is not entitled to sovereign immunity because it is not an arm of the state. However, the court's lengthy discussion of the relationship between UI and the state leading up to its holding in *Barrett* shows that Fujitsu's reliance on this language is misplaced. In particular, the court characterizes UI as follows:

> While it is a public corporation, it was organized and exists for one specific purpose. *It is unique in that it has and can own no property in its own right. Whatever property or interest in property it acquires belongs to the State, and is held by it as trustee for the use of the State.* It has no taxing powers and no means of raising money or acquiring property, except through the operation of the university. Its power to borrow money and to issue bonds is granted and limited by the act of June 4, 1941. Ill.Rev.Stat.1941, chap. 144, par. 71 et seq. *True, it may receive donations and gifts, but whatever it may receive as such, like all other property which it*

> *acquires, it holds only as trustee for the State, the beneficial owner.* It has no power to select its own trustees or managers. This power is reserved to the State. It functions solely as an agency of the State for the purpose of the operation and administration of the university, for the State. In doing this, it functions as a corporation, separate and distinct from the State and as a public corporate entity with all the powers enumerated in the applicable statutes, or necessarily incident thereto. It has and can exercise no sovereign powers. It is no part of the State or State government. As definitely held by this court in *Spalding v. People, supra*, by establishing the university the State created an agency of its own through which it proposed to accomplish certain educational objects, and the corporate entity created for that purpose is a public corporation belonging to the class of corporations enumerated in section 80 of division I of the Criminal Code Ill.Rev Stat.1941, chap. 38, par. 214. Its contractual powers are so restricted by statute that it can create no liability or indebtedness against the State and no liability or indebtedness against itself as a corporate entity in excess of the funds in the hands of the treasurer of the. university at the time of creating such liability or indebtedness and which may be specially and properly applied to the payment of the same. Ill.Rev.Stat.1941, chap. 144, par. 28. No suit can be maintained against it which would adversely affect the rights of the State. *Schwing v. Miles*, 367 Ill. 436, 11 N.E.2d 944, 113 A.L.R. 1504.

Id. at 342-343 (emphasis added). While far from clear, this language supports the conclusion that the property of UI belongs to the state as a matter of law.

Fujitsu also argues that regardless of the holdings of the state court cases discussed above, application of the five-factor test set forth in *Jackson v. Hayakawa*, supports the

conclusion that UI should not be considered an arm of the state. 682 F.2d at 1350. The Court disagrees.

The factor that is given the greatest weight in determining whether an agency is an arm of the state for Eleventh Amendment purposes is whether or not state funds would be threatened. *Id.* As noted above, this inquiry is not a factual inquiry to determine where funds would actually come from in the event that liability were established. Rather, the court looks to whether a judgment would impose legal liability on the state. *Regents of the Univ of Cal. v. Doe*, 519 U.S. at 430-431. Moreover, the funds need not be taken "'literally out of the general treasury' so long as-they are, in fact, 'state-held funds' otherwise available to the state." *Vaughn v. Regents of the Univ. of Cal.*, 504 F. Supp. 1349, 1353 n.5 (E.D. Cal. 1981) (quoting *Wade v. Miss. Co-op Extension Service*, 424 F. Supp. 1242, 1257 (N.D. Miss. 1976)).

Here, the Court concludes that the first factor—whether or not state funds will be threatened—supports the conclusion that UI is an arm of the state. Under Illinois law, UI acts as an alter ego for the state. As noted above, the rationale in *Cannon* was that the University is an alter-ego of the state and therefore, any funds that are taken from its treasury are, by definition, state funds. This reasoning, in turn, is supported by cases decided by Illinois state courts, albeit not necessarily in the context of Eleventh immunity analysis.

Fujitsu asserts that this reasoning is circular. Essentially, the "alter ego" argument assumes the proposition to be proven: that the funds are state funds. While Fujitsu's argument has some force, it is not supported by authority and cannot withstand analysis. First, state law precedent holds that property of UI is the property of the state. This conclusion is dispositive as to the first factor in the immunity analysis: a judgment against UI is against state funds. Moreover, a number of courts, in addition to *Cannon*, have relied on the same alter-ego theory to conclude that a

university was an arm of the state. *See, e.g., Vaughn*, 504 F. Supp. at 1354 (holding that University of California is arm of the state based, in part, on fact that "although the Regents is vested with legal title to the University's property . . . all the University's property is property of the state" under the California constitution and noting that "[t]he majority of federal courts which have considered the 'alter-ego' relationship of a state university to its state have concluded that a suit against the university is a suit against the state for purposes of the Eleventh Amendment"); *Hutsell v Sayre*, 5 F.3d 996, 1002 (6th Cir. 1993) (holding that University of Kentucky was entitled to Eleventh Amendment immunity based, in part, on fact that all funds collected by the University were deemed state funds under Kentucky statute).

The Court is not persuaded by Fujitsu's assertion that UI may not be an arm of the state because it has authority under Illinois law to acquire, hold, sell, lease and convey real and personal property without state approval. *See* Fujitsu Surreply at 2 (citing to 110 ILCS §§ 305/1, 305/7d, 420/1(f)). As the court in *Barrett* made clear, UI's organizational independence from the State of Illinois as a public corporation does not preclude it from being an alter-ego of the state for the purposes of ownership.

The Court also rejects Fujitsu's assertion that UI has not established that it performs any essential governmental function—the second factor in the five-factor test. *See Jackson v. Hayakawa*, 682 F.2d at 1349. The cases that have addressed the issue have held, almost uniformly, that the provision of higher education is an essential governmental function for the purposes of Eleventh Amendment immunity analysis. *See, e.g., Hutsell*, 5 F.3d at 1002 (holding that "higher education has long been recognized as a governmental function"); *Kovats v. Rutgers*, 822 F.2d 1303, 1310 (3d Cit. 1987) (holding that Rutgers University was not an arras of the state but recognizing that "providing education

has long be recognized as a function of state government"). Similarly, this Court finds that in providing higher education, UI performs an essential governmental function.

Fujitsu is correct that UI's ability to sue and be sued points to the conclusion that UI is not an arm of the state. *See* 110 ILCS § 305/1. However, it is clear from the numerous cases that have found universities to be arms of the state notwithstanding their ability to sue and be sued, that this factor is not dispositive. *See, e.g., Kashani v. Purdue Univ.*, 813 F.2d 843, 847 (7th Cir. 1987) (holding that Purdue University was arm of the state even though it could sue and be sued); *United Carolina Bank v. Bd. of Regents of Stephen Austin State Univ.*, 665 F.2d 553, 559 (5th Cir. 1982) (holding that the university was entitled to Eleventh Amendment immunity even though it had the right to sue and be sued).

The fourth factor is whether an agency can hold property in its own name. *See Jackson v. Hayakawa*, 682 F.2d at 1349. Fujitsu cites to state laws that show UI can hold property in its own name, and UI does not appear to dispute this point. This factor points to the conclusion that UI is not entitled to Eleventh Amendment immunity. However, like the question of whether the University can sue and be sued, this factor is not dispositive.

The fifth factor is the corporate status of the entity. *Id.* Here, it is undisputed that UI is a public corporation. In light of the fact that UI is a public corporation rather than a private corporation, however, the Court does not find that this factor provides strong support for either the conclusion that UI is an arm of the state or the conclusion that it is not.

Finally, the Court rejects Fujitsu's assertion that even if UI would otherwise be entitled to Eleventh Amendment immunity, it has waived its sovereign immunity by invoking diversity jurisdiction in other actions, thus representing itself

as a citizen rather than a state.[12] While UI's conduct in this litigation could give rise to waiver (as discussed above), Fujitsu has cited to no authority in support of the proposition that UI's conduct in a separate action could result in waiver of Eleventh Amendment immunity in this action. Nor does there appear to be any such authority.

In short, applying the five-factor test articulated in *Jackson v. Hayakawa*, the Court concludes that UI is entitled to assert sovereign immunity under the Eleventh Amendment.

3. Has UI Waived Sovereign Immunity as to Counterclaims Six Through Thirteen?

UI asserts that Counterclaims Six through Thirteen are not sufficiently related to its own patent infringement claims to make them compulsory counterclaims, and therefore it has not waived sovereign immunity as to these counterclaims. Fujitsu, on the other hand, asserts that all of its counterclaims are compulsory.[13] This is the axis of the dispute: to determine

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[12] As discussed below, diversity jurisdiction can exist only if UI is a citizen and not if it is a state.

[13] Fujitsu also argues that, even if these counterclaims are not strictly compulsory, UI's waiver should extend to these claims. Fujitsu asserts that the Supreme Court's recent decision in *Lapides*, and the fact that this case involves conduct by a state beyond its own borders, supports this position. The Court is not persuaded by Fujitsu's argument. In support of its argument, Fujitsu cites to language in *Lapides* in which the Supreme Court states that it would be unfair to allow the state to contend at the same time that: 1) the judicial power of the United States extends to the case at hand; and 2) the state is entitled to sovereign immunity on the basis that the judicial power does not extend to the case at hand. 122 S. Ct at 1643. Fujitsu asserts that because the conduct here was committed outside of the state of Illinois, UI could be sued in state court in a state other than Illinois. Fujitsu argues it would be unfair to require Fujitsu to defend its patent infringement claims in federal court (where UI has waived sovereign immunity) while requiring Fujitsu to bring its counterclaims in a state court: Therefore, Fujitsu believes, the situation here is similar to the situation in *Lapides*.

There are two flaws in Fujitsu's argument. First, *Lapides* addressed a very specific set of facts that do not apply here. In particular, in *Lapides*,

whether or not the counterclaims arise out of the same transaction or occurrence as the infringement claims, should the Court consider the facts underlying Fujitsu's affirmative defenses? UI answers this question in the negative, while Fujitsu responds in the affirmative.

UI also argues that (1) even if affirmative defenses are considered, Fujitsu's counterclaims are not sufficiently related to its affirmative defenses to make them compulsory counterclaims; and (2) abuse of process claims are compulsory counterclaims only in the proceeding in which the process was alleged to have been abused. Each argument is addressed below in turn.

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the state removed an action from state court to federal court asserting that the federal court could exercise jurisdiction over the state with respect to the claims asserted in that action. 122 S. Ct. at 1642. Once in federal court, the state asserted that it was entitled to sovereign immunity as to the very claims it had removed to federal court. *Id.* The Court held that allowing the state to remove an action and then assert sovereign immunity as to the claims asserted in that action would give rise to "seriously unfair result." *Id.* at 1643. The Court held that the state could not both assert and deny federal jurisdiction. Here, the state does not seek to assert sovereign immunity as to the very same claims for which it invoked federal jurisdiction. Rather, UI is seeking to limit its waiver to counterclaims that arise out of the same transaction or occurrence. The kind of unfairness that was at issue in *Lapides* is not present here.

Further, Fujitsu's argument that waiver of sovereign immunity extends to permissive counterclaims because the conduct at issue took place outside of the state's borders is unsupported by any authority (as Fujitsu concedes). Moreover, Fujitsu does not address why this fact would support the conclusion that the holding of *In re Lazar*—where the Ninth Circuit expressly held that waiver extends only to compulsory counterclaims—would not apply. The Court does not find anything in the reasoning of *In re Lazar* that suggests that the distinction Fujitsu draws here has any significance or would give rise to a different result.

a. *Should Affirmative Defenses Be Considered?*

Rule 13(a) states that "a pleading shall state as a counterclaim any claim . . . the pleader has against any opposing party if it arises out of the same transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction." To determine if claims arise out of the same transaction or occurrence, courts in the Ninth Circuit ask whether "the essential facts of the various claims are so logically connected that considerations of judicial economy and fairness dictate that all of the issues be resolved in one lawsuit." *Pochiro v. Prudential Ins. Co. of America*, 827 F.2d 1246, 1249 (9th Cir. 1987). "The test is a 'flexible' one taking into account all of the circumstances in light of the purposes of Rule 13(a)." *Grumman Sys. Support Corp. v. Data Gen. Corp.*, 125 F.R.D. 160, 162 (N.D. Cal. 1988) (citing *Moore v. New York Cotton Exch.*, 270 U.S. 593, 610 (1926); *Warshawsky & Co. v. Arcata Nat'l Corp.*, 552 F.2d 1257 (7th Cir. 1977)). Among the factors courts consider in determining whether the test is met is whether "the facts necessary to prove the two claims substantially overlap, [and whether] the collateral estoppel effect of . . . the first action would preclude [the claims from being brought in a later action]." *Pochiro*, 877 F.2d at 1251.

In support of its argument that affirmative defenses should not be considered, UI cites to the following language in *In re Lazar*:

> A logical relationship exists when the counterclaim arises from the same aggregate set of operative facts as the initial claim, in that the same operative facts serve as the basis of both claims or the aggregate core of facts upon which the claim rests activates additional legal rights otherwise dormant in the defendant.

237 F.3d at 978. This language, however, is ambiguous. The court does not explain whether it is using the word "claim" to

refer only to the elements to be proven by the plaintiff, or to include defenses that must be proven by a defendant.

In support of the proposition that the court should consider whether or not the counterclaims are based on the same facts as the affirmative defenses, Fujitsu cites to *Pochiro*, 827 F.2d 1246 (9th Cir. 1987). In *Pochiro*, Defendant Prudential Insurance Company sued a former employee, John Pochiro, and his wife in state court. Prudential alleged that the defendants appropriated confidential customer information obtained while Mr. Pochiro worked for Prudential, and sought to enjoin the Pochiros from using its confidential records. 827 F.2d at 1248. Subsequently, the Pochiros sued Prudential, bringing claims including defamation and abuse of process against Mr. Pochiro's former employer. *Id.* The Pochiros alleged, among other things, that Prudential had called Mr. Pochiro a "crook" and had engaged in wrongful conduct—including filing a lawsuit against him—intended to damage the Pochiros' competing insurance business. *Id.* The court of appeals held that the Pochiros' claims were properly dismissed by the district court because they were compulsory counterclaims in the action brought by Prudential. *Id.*

In reaching the conclusion that the Pochiros' claims were compulsory counterclaims, the court compared the facts underlying Prudential's claims and those underlying the Pochiros' claims. The court stated:

> In its state court action, Prudential pleaded causes of action for breach of employment contract, unfair competition, and intentional interference with business relations. The operative facts underlying these causes of action were that John Pochiro, when employed by Prudential as an agent, was given confidential records about Prudential's present and prospective policyholders. Then, after resigning from Prudential, Pochiro

failed to return the records to Prudential and instead used them in soliciting business in competition with Prudential.

Prudential argues that the operative facts underlying the Pochiros' action also revolve around the Pochiros' use of these same confidential records. We agree. Although the Pochiros' complaint is rather jumbled, their causes of action for unlawful restraint of trade, unfair business practices, intentional interference with contractual advantage, defamation, abuse of process, intentional infliction of emotional distress, and tortious breach of employment contract are bottomed on a single paragraph of factual allegations, which we quote in full:

> Commencing in December, 1982 and January-February, 1983, Prudential deliberately, maliciously, willfully and/or with gross, wanton and negligent conduct set about to substantially damage John's reputation, credibility and business; that Prudential's wrongful conduct included it doing the following acts: (1) Prudential told John's employees and/or prospective employees that John was a crook, and/or was dishonest and threatened them with litigation involvement or economic difficulty if they worked for John; (2) Prudential told insurance customers that John was a crook, dishonest, and/or unscrupulous and that if they did business with him they would suffer losses; (3) Prudential encouraged one customer to file a complaint, without justification, against John at the Arizona Insurance Commissioner; (4) Prudential used delay tactics in paying its own policyholders to prevent them from converting existing Prudential policies and doing business with John; (5) Prudential unjustifiably tried to persuade [sic] other insurance companies not to do business with John; (6) Prudential abused the process of the Arizona court system

> by bringing a lawsuit against John for the ulterior purpose of using it as a tool to dissuade persons from doing business with John; (7) Prudential told customers of John that if they did business with him they would be involved in litigation; (8) Prudential in bad faith delayed and/or failed to make payments to John under John's own insurance policy with Prudential and stopped payment on at least one such check, wrriten [sic] in favor of an ambulance service.
>
> Excerpt of Record (E.R.) at 7-8. Although some of these allegations at first blush appear a bit removed from Prudential's action to enjoin the Pochiros' use of confidential records, it is undisputed that Pochiro's use of Prudential's customer records is inextricably intertwined with the facts as alleged in the Pochiros' complaint. For example, the Pochiros' allegations that Prudential called John Pochiro "a crook" relate to Prudential's litigated claim that Pochiro misappropriated confidential records.

Id. at 1250.

Pochiro does not explicitly address whether defenses should be considered in determining whether counterclaims are compulsory. However the court did construe the "transaction or occurrence" that gave rise to the state court action rather broadly: it included affirmative allegations in the federal suit that Prudential engaged in misconduct related to the claimed misappropriation.

A district court case cited by Fujitsu, *Grumman Systems Support Corp. v. Data General Corp.*, 125 F.R.D. 160 (N.D. Cal. 1988), supports the conclusion that affirmative defenses should be considered. In *Grumman*, the defendant, Data General, sued Grumman in Massachusetts for copyright infringement. *Id.* While that action was still pending, Grumman sued Data General in the Northern District of California. *Id.* Data General moved to dismiss the California action on the

basis that the claims asserted by Grumman in the California action were compulsory counterclaims in the Massachusetts action. *Id.* The court agreed. The court's conclusion in *Grumman* was based upon the fact that Grumman's claims in the California action were substantially the same as an affirmative defense asserted by Grumman in the Massachusetts action. *Id.* at 162. The court went on to hold that the claims in the California action were compulsory counterclaims even though Grumman alleged additional facts in support of its claims in the California action. *Id.*[14]

The Federal Circuit's decision in *Genentech, Inc. v. Eli Lilly and Co.*, 998 F.2d 931 (Fed. Cir. 1993), and the subsequent district court decision on remand, lends support to the conclusion reached in *Grumman*. In *Genentech*, Genentech sued Eli Lilly and the University of California in the Southern District of Indiana, seeking a declaration of non-infringement and invalidity with respect to a patent owned by the university. *Id.* at 935. In addition, Genentech asserted antitrust claims and various state law tort claims. The next day, the University and Eli Lilly brought patent infringement claims against Genentech in the Northern District of California. *Id.* The university then brought a motion to dismiss in the Southern District of Indiana based, in part, on the assertion that the declaratory judgment action was barred as to the university by Eleventh Amendment immunity. *Id.* The court agreed and dismissed the action. *Id.*

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[14] UI seems to suggest that *Pochiro* and *Grumman* do not apply here because they do not involve Eleventh Amendment immunity, which requires waiver to be strictly construed. However, UI cites to no authority which suggests that the rule announced in *In re Lazar*—that Eleventh Amendment immunity is waived as to compulsory counterclaims—carries with it some stricter test for determining whether or not a counterclaim is compulsory. Rather, the court in *In re Lazar* envisioned that the usual test for determining whether a counterclaim arises out of the same transaction or occurrence should be applied in cases involving Eleventh Amendment immunity.

On appeal, the Federal Circuit addressed the question of whether the university was entitled to Eleventh Amendment immunity as to the antitrust and state law tort claims. *Id.* at 944. The Federal Circuit held that, by asserting patent infringement claims against Genentech, the university had waived its Eleventh Amendment immunity as to Genentech's defenses and, for the purposes of recoupment, as to all compulsory counterclaims. *Id.* at 947. The Federal Circuit remanded to the district court to determine whether or not Genentech's claims constituted compulsory counterclaims. *Id.*

On remand, the district court addressed whether two of the claims were compulsory. *In re Recombinant DNA Tech. Patent and Contract Litig.*, 874 F. Supp. 904 (S.D. Ind. 1994). First, the district court addressed whether a third party beneficiary claim was a compulsory counterclaim. *Id.* at 920. This claim was based on Genentech's allegation that it was a third-party beneficiary of an Institutional Patent Agreement ("IPA") between the university and the Department of Health, Education and Welfare ("HEW"), which had provided funding for research related to the patent at issue. *Id.* at 907. Under the IPA, the university was obligated to "license any patents arising from the work funded by the HEW on a non-exclusive basis and subject only to a reasonable royalty." *Id.* Genentech alleged that it was harmed when the university and Eli Lilly applied for, and ultimately received, a waiver of the licensing restrictions under the IPA, which then allowed the university to grant Eli Lilly an exclusive license to the patent at issue. *Id.* at 908. The court explained, "[a]pparently, Genentech's argument is that had the nonexclusive licensing provisions remained unaltered, Genentech would have had a right to obtain a license to the '877 patent—a right that would lave precluded UC from alleging Genentech infringed the '877." *Id.* at 920.

The court held that the third party beneficiary claim was a compulsory counterclaim. *Id.* It explained its holding as follows:

> Genentech apparently uses its third party beneficiary claim both *offensively and defensively*. Offensively, Genentech seeks to hold UC liable for its actions vis-a-vis the 1980 IPA between UC and the HEW and vis-a-vis the 1978 option agreement between Lilly and UC. Such claim would require this Court to consider the language of these agreements and the obligations the agreements placed on UC and Lilly. Defensively, Genentech asserts that the aforementioned agreements gave Genentech a right to a license to the '877 patent, and that this right should have precluded UC ever from lodging a patent infringement suit against it based on the '877 patent. *Since Genentech's defensive use of the third-party beneficiary claim will require an analysis of the same facts and law that offensive use of that claim would, we believe Genentech's third-party beneficiary claim properly is classified as compulsory.* To hold otherwise would mandate review of the same facts and the same law by a different tribunal at a later date. Such a holding would counter Rule 13(a)'s purpose of furthering judicial economy.

Id. (emphasis added).

The district court also addressed whether or not a claim for breach of a settlement agreement between the university and Genentech was a compulsory counterclaim. *Id.* at 922. According to Genentech, the settlement agreement contained a provision that authorized Genentech to use the materials that were at the heart of the patent dispute. *Id.* Therefore, Genentech argued, the settlement agreement provision was also a defense to the university's patent infringement claim. *Id.* The district court rejected Genentech's argument, but in doing so, it did not question Genentech's assumption that the

claim would be a compulsory counterclaim if it was based on the same facts as one of its defenses. Rather, the district court observed that there was nothing in Genentech's complaint that provided any suggestion that Genentech was asserting a defense based on prior authorization to use the material at issue. *Id.*

The district court in *Genentech* clearly held that the "transaction or occurrence" included the subject of the affirmative defenses, and this Court agrees. The Court concludes that counterclaims should be considered compulsory when they are based on the same "transaction or occurrence" as the plaintiff's causes of action *and* the affirmative defenses asserted in the action.

b. *Are Fujitsu's Counterclaims Logically Related to Its Affirmative Defenses?*

Fujitsu asserts that its counterclaims are based on the same facts as its affirmative defenses and points to evidence it says it will rely on in support of both its affirmative defenses and its counterclaims. UI, on the other hand, asserts that Fujitsu has failed to demonstrate that its counterclaims arise out of the same transaction or occurrence as its affirmative defenses. First, UI questions whether this issue can be resolved based on Fujitsu's assertions concerning the evidence it will rely on in the future. Second, UI challenges whether or not the facts on which Fujitsu relies in its counterclaims can, as a matter of law, provide a basis for its affirmative defenses.

The Court concludes that Fujitsu's counterclaims are based on the same underlying factual *allegations* as are its affirmative defenses. In particular, the factual allegations supporting Fujitsu's affirmative defense of unclean hands encompasses all of the conduct alleged in support of Counterclaims Six through Thirteen. Therefore, the Court holds

that UI has waived its Eleventh Amendment immunity as to Counterclaims Six through Thirteen.[15]

c. *Are Abuse of Process Counterclaims Permissive Under Pochiro?*

UI argues that under *Pochiro*, Fujitsu's counterclaims for abuse of process cannot be compulsory counterclaims. The Court is not persuaded by UI's argument.

In *Pochiro* the court concluded that all of the plaintiffs' claims, including their abuse of process claims, were barred as compulsory counterclaims. 827 F.2d at 1252. The court went on to discuss case law addressing whether or not abuse

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[15] In this Order, the Court does not reach the question of whether damages on Fujitsu's counterclaims against UI are limited to recoupment. The Court is also mindful that at this stage of the proceedings, it is impossible to know whether or not Fujitsu's affirmative defenses will be supported by the evidence. If the Court determines at a later stage of this case that Fujitsu's affirmative defenses are not supported by the evidence or are otherwise insufficient as a matter of law, it may be necessary to revisit the question of UI's waiver of Eleventh Amendment immunity. The Court declines UI's invitation to hold that some or all of the affirmative defenses (other than the Tenth, addressed below) do not allege facts sufficient to constitute an affirmative defense or contain surplus allegations of fact which do not amount to a defense. UI Reply at 7-11. First, UI's generalized objection on the pleadings to the unclean hands defense lacks merit. *See Precision Instruments Mfg. Co. v. Auto. Maintenance Mach.*, 324 U.S. 806 (1945) (holding that the doctrine of unclean hands "gives wide range to the equity court's use of discretion in refusing to aid the unclean litigant [and] is not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion"). That defense by itself contains all of the allegations included in the counterclaims. As a result, even if some of the defenses were stricken at this stage of the case, the overlap between the subject of the counterclaims and the subject of the affirmative defenses would still be 100%. Second, UI's attack on the sufficiency of the allegations in the affirmative defenses (other than the Tenth) comes not in the opening brief on a motion to strike, but in a *reply* brief on a motion to dismiss the *counterclaims*. It is improper to raise in reply a series of arguments that amount to an entirely new, unfiled motion.

of process claims are compulsory counterclaims in the action alleged to be abusive. *Id.* at 1252. The court noted that there was a split of authority as to "whether an abuse of process claim is a compulsory counterclaim in the very action which allegedly is abusive." *Id.* The court then rejected the line of cases that refused to find an abuse of process claim a compulsory counterclaim in the same action on the basis that such claims were unrelated to the underlying substantive claims. *Id.* The court noted that those cases were inconsistent with the Supreme Court's instruction that "'transaction' is a word of flexible meaning which may comprehend a series of occurrences if they have logical connection.'" *Id.* at 1252 (quoting *Moore v. New York Cotton Exch.*, 270 U.S. 593 (1926)).

Although *Pochiro* holds that an abuse of process claim is a compulsory counterclaim in the same action in which process is alleged to have been abused (which suggests, conversely, that such a claim cannot be a compulsory counterclaim in a subsequent action), *Pochiro* does not address a situation in which the process alleged to have been abused is a prior *administrative* proceeding. Where the prior proceeding is administrative, the abuse of process claim may not be recognized and/or the same relief might not be available as in a judicial proceeding. Under such circumstances, courts have held that rulings on claims brought in a prior administrative proceeding do not have preclusive effect, even if the claim before the administrative tribunal was based on the same transaction or occurrence as the claim that was later brought in federal court. *See Bio-Technology General Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1563 (Fed. Cir. 1996). Thus, in *Bio-Technology General Corp.*, the court declined to give preclusive effect to the ITC's dismissal of an action, even though the district court action was based on the same claim, because the ITC did not have the power to award damages. *Id.* Here, as in *Bio-Technology General Corp.*, the relief that UI and Competitive could have obtained in the ITC

proceeding—in contrast to the relief available in this action—did not include damages. Therefore, under the reasoning of *Bio-Technology General Corp.*, Fujitsu's abuse of process counterclaims could not have been compulsory counterclaims in that action and are not barred in this action.[16]

B. *Subject Matter Jurisdiction*

Both Competitive and UI assert that the Court does not have subject matter jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims. First, both argue that there is no diversity jurisdiction as to these claims. Second, both argue that the counterclaims do not arise out of the same case or controversy as do UI's infringement causes of action and therefore, that there is no supplemental jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims. Finally, both argue that even if there is supplemental jurisdiction, the Court should exercise its discretion to decline to hear Fujitsu's counterclaims. For the reasons stated below, the Court concludes that there is diversity jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims against Competitive and supplemental jurisdiction over these counterclaims against UI.

1. Diversity Jurisdiction

a. *UI*

UI asserts that there can be no diversity jurisdiction over it because it is an arm of the state and a state is not a citizen for purposes of diversity. *See Moor v. County of Alameda*, 411 U.S. 693, 717 (1973) (noting that "[t]here is no question that a State is not a 'citizen' for the purposes of diversity

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[16] As discussed below, however, while this distinction undercuts UI's argument that the abuse of process counterclaims are permissive rather than compulsory, the fact that Fujitsu's counterclaims are based on a prior administrative proceeding also makes these counterclaims defective under Rule 12(b)(6).

jurisdiction"); *see also Univ. of South Ala. v. American Tobacco Co.*, 168 F.3d 405, 411 (9th Cir. 1999) (holding that state university was not a citizen for purposes of diversity jurisdiction and noting that analysis for determining whether entity is a citizen for purposes of diversity jurisdiction is the same as analysis for determining whether entity is entitled to Eleventh Amendment immunity). Fujitsu raises essentially the same arguments on this issue as it does with respect to the Eleventh Amendment immunity analysis. For the reasons stated above, the Court finds that UI is an arm of the state of Illinois and that there is no diversity jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims against UI.

b. *Competitive*

In its Reply, Competitive concedes that the requirements for diversity jurisdiction are met as to Counterclaims Six through Thirteen against Competitive. Competitive suggests, however, that the court does not have personal jurisdiction over Competitive. Reply at 2-3.

The Court rejects Competitive's assertion that this Court lacks personal jurisdiction over it. Competitive has provided no authority in support of this argument and has not explained why it has never, in the year since this case was transferred to the Northern District of California, brought a motion to dismiss for lack of personal jurisdiction. Competitive filed this action, and has therefore waived any objection to personal jurisdiction with respect to compulsory counterclaims. *See Baker v. Gold Seal Liquors, Inc.*, 417 U.S. 467, 469 n.1 (1974) (holding that where there is jurisdiction as to claim, no independent basis for federal jurisdiction required for compulsory counterclaim). The fact that this action was transferred from Illinois does not change this result. *See Grupke v. Linda Lori Sportswear, Inc.*, 174 F.R.D. 15, 18 (E.D.N.Y. 1997) (rejecting plaintiffs' assertion that court did not have personal jurisdiction with respect to compulsory counterclaims asserted against them, even though action had

been transferred on defendants' motion, on the basis that plaintiffs had continued to litigate their claims in transferee forum rather than dismissing claims to avoid trying them in transferee court); *Star-Brite Distributing, Inc. v. Gavin*, 746 F. Supp. 643 (N.D. Miss. 1990) (same). Following transfer, Competitive continued to prosecute this action in this Court, and has appeared before this Court on numerous occasions without ever asserting a lack of personal jurisdiction. Indeed, Competitive moved to dismiss the counterclaims at issue and did not raise personal jurisdiction until its Reply brief. Competitive has waived any objection to personal jurisdiction. The Court finds that it has subject matter jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims against Competitive on the basis of diversity.[17]

2. Supplemental Jurisdiction

a. *Do the Counterclaims Arise out of the Same Transaction or Occurrence?*

Because there is no diversity jurisdiction with respect to Fujitsu's Counterclaims Six through Thirteen against UI, the Court must address UI's argument that there also is no

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[17] Competitive also asserts that venue is improper as to these counterclaims. Competitive's argument is to no avail. It is well established that where venue is proper for the plaintiff's original claims and additional claims are asserted as counterclaims or cross-claims, a venue objection is unavailable. *See Bredberg v. Long*, 778 F.2d 1285, 1288 (8th Cir. 1985) (recognizing rule); *Shapo v. Engle*, 2000 WL 198435 (N.D. Ill.) (holding that intervenor was not required to satisfy venue requirements where venue was proper as to the plaintiff's claims); *see also* Wright & Miller, Federal Practice and Procedure, Juris 2d. § 3808. Because the district court in Illinois already determined that venue was proper in this Court with respect to UI and Competitive's patent infringement claims, Competitive may not now object to venue as to Fujitsu's compulsory counterclaims. *See Grupke*, 174 F.R.D. at 18 (holding that plaintiffs in transferred action could not object to venue in transferee forum where transferor court had determined that venue was proper in transferee forum as to plaintiffs' claims).

supplemental jurisdiction over these counterclaims. Pursuant to 28 U.S.C. § 1367(a), in an action in which the district court possesses original jurisdiction over a federal claim, the district court has supplemental jurisdiction over "all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III of the United States Constitution." Although some courts have suggested that the "case or controversy" test is broader than the "logical relationship test" that is applied to compulsory counterclaims, *see, e.g., Rothman v. Emory Univ.*, 123 F.3d 446, 454 (7th Cir. 1997), some have held that supplemental jurisdiction exists only as to compulsory counterclaims and not as to permissive counterclaims. *See, e.g., Hart v. Clayton-Parker and Assoc., Inc.*, 869 F. Supp. 774, 776 (D. Ariz. 1994). The Court need not resolve this issue, however, because it finds that Counterclaims Six through Thirteen are compulsory counterclaims, as discussed above. Accordingly, these counterclaims are part of the same case or controversy as UI's claims, regardless of which test is applied. Therefore, the Court may exercise supplemental jurisdiction over Counterclaims Six through Thirteen against UI.

b. *Should the Court Decline to Exercise Supplemental Jurisdiction?*

UI and Competitive assert that the Court should decline to exercise supplemental jurisdiction over Counterclaims Six through Thirteen under 28 U.S.C. § 1367(c). Section 1367(c) provides as follows:

> The district courts may decline to exercise supplemental jurisdiction over a claim under subsection (a) if—
>
> (1) the claim raises a novel or complex issue of State law,

> (2) the claim substantially predominates over the claim or claims over which the district court has original jurisdiction,
>
> (3) the district court has dismissed all claims over which it has original jurisdiction, or
>
> (4) in exceptional circumstances, there are other compelling reasons for declining jurisdiction.

28 U.S.C. § 1367(c). UI asserts that the Court should not exercise supplemental jurisdiction because Counterclaims Six through Thirteen will substantially predominate over the patent infringement claims.[18] The Court disagrees. Given that Fujitsu's counterclaims are based on the same facts as are the defenses it will present in this action, the Court finds that Fujitsu's counterclaims will not so substantially predominate as to justify the judicial inefficiency that would result if this Court were to decline to exercise supplemental jurisdiction.

D. *Sufficiency of Fujitsu's Allegations Under Rule 12(b)(6)*

UI and Competitive assert that even if this Court has jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims, all of those counterclaims should be dismissed for failure to state a claim under Rule 12(b)(6). Below, the Court addresses the sufficiency of each of these counterclaims.[19]

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[18] Competitive also argues that supplemental jurisdiction should not be exercised due to "exceptional circumstances" and because Fujitsu's counterclaims raise "complex issue[s] of state law." Because the Court concludes that subject matter jurisdiction over Counterclaims Six through Thirteen against Competitive is based on diversity, it need not reach these issues, which were not raised by UI. Even if the Court were to reach Competitive's arguments, however, the Court would reject them. None of the arguments raised by Competitive for declining to exercise supplemental jurisdiction provides a sufficient basis for reaching such a result.

[19] The Court does not determine at this stage of the case which state's laws will apply to Fujitsu's counterclaims, as such a determination would

1. Counterclaim Six (Breach of Confidentiality)

Fujitsu alleges in Counterclaim Six that its discussions with Competitive regarding licensing "were based on the understanding that the existence, status and substance of the discussions would remain in confidence." Answer to Amended Complaint at ¶ 80. Fujitsu further alleges that "CTI, acting with and for UI, repeatedly indicated by its conduct that it knew that the existence, status, and substance of its business discussions with Fujitsu were confidential and could not be disclosed without Fujitsu's permission." *Id.* at ¶ 81. In support of this allegation, Fujitsu cites to a letter Written by Robert Siegel, of Competitive, to the NEC Corporation in which he stated: "I regret that I am unable to disclose the names of the Japanese company which has already obtained a license [Matsushita] and the company with whom we are now negotiating [Fujitsu]. We do not disclose such matter when confidentiality has been requested." *Id.* at ¶ 82. Fujitsu also cites to a provision in a draft license agreement sent to Fujitsu by Competitive which included an anonymity provision. *Id.* at ¶ 83. That provision prohibited Competitive "from disclosing even the existence of the license without the prior written consent of Fujitsu." *Id.* at ¶ 83. Finally, Fujitsu alleges that its expectation that the negotiations would be kept confidential was based on a "custom and practice of patent licensing negotiations" that such negotiations be treated as "highly confidential." *Id.*

Next, Fujitsu alleges that "Counterdefendant CTI, acting with and for UI, with the assistance of others wilfully and repeatedly breached a duty to maintain the existence, status, and/or substance of the business discussions in confidence owed to Counterclaimants by making improper disclosures to

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be premature. However, where no actual conflict has been demonstrated between the laws of the various states whose laws might be applied, the Court relies on California law.

Matsushita and other competitors of counterclaimants in the PDP field." *Id.* at 86. Fujitsu further alleges that the improper disclosures gave Matsushita an improper competitive advantage over Fujitsu with respect to its own licensing negotiations with Competitive. *Id.* at ¶¶ 87, 90.

UI and Competitive assert that, whether Counterclaim Six is construed as a tort claim for breach of confidence or a contract claim for breach of implied contract, Fujitsu has failed to state a claim.

a. *Breach of Confidence*

Under California law, a plaintiff may bring an action in tort for breach of confidence.[20] *Entm't Research Group v. Genesis Creative Group, Inc.*, 122 F.3d 1211, 1226 (9th Cir. 1997). The court in *Entertainment Research* explained the claim as follows: "this cause of action recognizes an obligation in law where in fact the parties made no promise. It is not based upon apparent intentions of the involved parties; it is an obligation created by law for reasons of justice." *Id.* In order to prevail on such a claim, a plaintiff is required to establish the following elements:

> (1) the plaintiff conveyed "confidential and novel information" to the defendant; (2) the defendant had knowledge that the information was being disclosed in confidence; (3) there was an understanding between the defendant and the plaintiff that the confidence be main-

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[20] UI represents that there is no claim for breach of confidence in any of the other states whose laws might apply besides California. Fujitsu does not dispute this point. Fujitsu also does not appear to dispute Competitive's assertions that Counterclaim Six does not state a claim for breach of fiduciary duty. Rather, Fujitsu argues that it has stated a claim in Counterclaim Six for breach of confidence under California law and a claim for breach of implied contract under the laws of several other states whose laws might apply to this claim (including California). The Court agrees. Therefore, the court need not now resolve the choice of law issue as to this claim.

> tained; and (4) there was a disclosure or use in violation of the understanding.

Id.

UI and Competitive assert that Fujitsu fails to state a claim for breach of confidence because: 1) the information allegedly revealed was not confidential and novel; 2) UI could not be liable for breach of confidence because it is not alleged that UI had a personal relationship with Fujitsu and UI did not authorize the allegedly tortious act; and 3) Fujitsu has not alleged that it was damaged. None of the authority offered by UI and Competitive support the conclusion that dismissal of this claim, assuming it is construed as a breach of confidence claim, is warranted under Rule 12(b)(6).

First, UI and Competitive have presented no authority in support of their assertion that the existence of business discussions cannot constitute confidential and novel information for the purposes of the tort of breach of confidence. Nor does the Court find any such authority.

Second, Fujitsu has alleged sufficient facts to state a claim based on a theory of vicarious liability as to UI. It is well established that a principal may be liable for the tortious conduct of an agent, even if the principal has not authorized the conduct. *See* Restatement (Second) of Agency, § 216 (1958). Section 216 provides as follows:

> A master or other principal may be liable to another whose interests have been invaded by the tortious conduct of a servant or other agent, although the principal does not personally violate a duty to such other or authorize the conduct of the agent causing the invasion.

Restatement (Second) of Agency § 216. The comment to Section 216 explains further:

> A principal is often subject to liability for the unauthorized conduct of an agent with respect to matters which, under the agreement creating the relation, he has the

> right to direct. The range of conduct for which there may be liability is greater in the case of servants than in the case of agents who are not servants but, as to both classes, liability is normally based upon the fact that the tort is brought about in the course of an undertaking for the benefit, and subject to the right, of the principal to control his servant or other agent.

Id., comment a.

The cases relied on by UI do not support a contrary result. In particular, UI asserts that *Larsen Chelsey Realty Co. v. Larsen*, 656 A.2d 69 (Conn. 1995) and *A-G Foods, Inc. v. Pepperidge Farm, Inc.*, 579 A.2d 69, 74 (Conn. 1990) stand for the proposition that a principal may be liable for the tortious acts of its agents only if the tortious conduct was authorized or ratified by the principal. UI misstates the holding of both cases. In *Larsen*, the court addressed a motion to set aside judgment involving both a claim against a principal based on respondeat superior and a claim in which the plaintiff sought to hold the principal directly liable. The court explained the difference between the two claims as follows:

> In the twelfth count of its complaint, the plaintiff alleged that Pearce Company, independent of any vicarious liability, had itself committed the business related torts of interference with contractual relations and unfair competition. . . . This liability arises apart from, and is distinguishable from, liability under the theory of respondeat superior. . . . As we indicated previously, *the theory of respondeat superior attaches liability to a principal merely because the agent committed a tort while acting within the scope of his employment.* "It refers to those acts which are so closely connected with what the servant is employed to do, and so fairly and reasonably incidental to it, that they may be regarded as methods, even though quite improper ones, of carrying out the objectives of the employment." W. Prosser & W. Keeton, Torts (5th Ed.1984) § 70, p. 502. A principal

(2)

Supreme Court, U.S.
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No. 04-1346

In The Supreme Court of the United States

THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,

Petitioner,

v.

FUJITSU LIMITED AND FUJITSU HITACHI PLASMA DISPLAY LIMITED,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

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QUESTION PRESENTED

Whether, in an action initiated by a state university in federal court, the collateral order doctrine grants the Federal Circuit appellate jurisdiction to review a district court's order provisionally denying the university's partial motion to dismiss, on Eleventh Amendment immunity grounds, some of the counterclaims filed against the university, where the district court ruled that pertinent legal arguments were raised late by the university and expressly noted that it may be necessary to revisit the question of the university's immunity, in anticipation of related legal challenges the university indicated it would seek to make.

RULE 29.6 CORPORATE DISCLOSURE STATEMENT

Respondent Fujitsu Limited has no parent corporation and no publicly held company owns 10% or more of its stock. Fuji Electric Holdings Co., Ltd., a publicly held company listed on the Tokyo Stock Exchange, however, controls the voting rights for approximately 11.33% of the outstanding stock of respondent Fujitsu Limited: Fuji Electric Holdings itself controls 4.57%, and stock held in trust by Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust, which constitutes 6.74% of voting rights, is voted in accordance with the directions of Fuji Electric Holdings Co., Ltd.

Respondent Fujitsu Limited, a publicly held company listed on the Tokyo Stock Exchange, owns 19.9% of the outstanding stock of respondent Fujitsu Hitachi Plasma Display Limited. Hitachi Limited, also a publicly held company listed on the Tokyo Stock Exchange, owns 80.1% of the outstanding stock of respondent Fujitsu Hitachi Plasma Display Limited.

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STATEMENT

1. Petitioner, the Board of Trustees of the University of Illinois, and its patent licensing agent, Competitive Technologies, Inc. ("CTI"), filed the instant suit for patent infringement on December 21, 2000 in the United States District Court for the Central District of Illinois. They brought suit against respondents Fujitsu Limited and Fujitsu Hitachi Plasma Display Limited,[1] and three other Fujitsu entities, alleging infringement of two patents assigned to petitioner, U.S. Patent Nos. 4,866,349 (the '349 patent) and 5,081,400 (the '400 patent).[2] At the same time, petitioner and CTI also filed a complaint in the United States International Trade Commission (the "ITC") on the same two patents.

On respondents' motion, the district court stayed the action pending the outcome of the ITC investigation. The parties conducted extensive discovery in the ITC over a period of six months. Part of that discovery revealed that petitioner and CTI had committed tortious acts against respondents in the course of their efforts to enforce the patents, which led respondents to file an amended pleading in the ITC asserting the defense of unclean hands. On the due date for ITC-ordered production of documents by certain third parties relating to the allegation of unclean

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[1] Respondent Fujitsu Hitachi Plasma Display Limited was added as a defendant in petitioner's and CTI's amended complaint dated March 27, 2001.

[2] Although petitioner and CTI sued five Fujitsu entities, only two of those entities, respondents Fujitsu Limited and Fujitsu Hitachi Plasma Display Limited, asserted the counterclaims that are at issue in petitioner's underlying appeal. The remaining three Fujitsu entities participated with respondents in the defense against petitioner's patent infringement claims described below.

hands, petitioner and CTI abruptly moved to withdraw their ITC complaint. The ITC granted the motion and terminated the proceeding with prejudice on July 10, 2001.

2. On September 25, 2001, on petitioner's motion, the district court lifted its stay in light of the termination of the ITC proceeding. Respondents moved to dismiss petitioner as a plaintiff in the suit for lack of standing to sue on the patents on the ground that petitioner had transferred all meaningful rights to the patents to CTI. Respondents also moved to transfer the case to the United States District Court for the Northern District of California. The court granted the transfer based in part on the existence of questions surrounding petitioner's standing to sue, finding that petitioner's choice of its home forum was entitled to little deference in light of the fact that petitioner's involvement in the lawsuit appeared to be peripheral to that of its co-plaintiff, CTI.

On June 11, 2002, respondents filed their answer, asserting thirteen affirmative defenses of, *inter alia*, invalidity, non-infringement, unclean hands, patent misuse, and inequitable conduct. They also asserted thirteen counterclaims against CTI, including for invalidity, non-infringement, and for patent misuse (counterclaims 1-5), and for breach of confidentiality, trade secret misappropriation, fraudulent and negligent misrepresentation, unfair competition, and abuse of process (counterclaims 6-13). The unclean hands, patent misuse, and inequitable conduct defenses, counterclaim 5 for patent misuse, and counterclaims 6-13 were based on the facts underlying the unclean hands defense that was asserted in the ITC proceeding. Respondents did not assert the counterclaims against petitioner at that time because they did not believe that petitioner belonged in the case due to its lack

of standing to sue on the patents. Respondents also renewed their motion to dismiss petitioner for lack of standing.

In September 2002, petitioner and CTI amended the terms of a 1985 Servicing Agreement governing their rights in the two patents. Non-Conf. C.A. App. A60, A62. Pursuant to the amended Servicing Agreement, CTI's rights in the patents were terminated and CTI assigned to petitioner all rights it had under the original agreement to bring and maintain litigation for past infringement of the patents. *Id.* at A62. As a result, on petitioner's motion, CTI was dismissed as a party plaintiff on the patent infringement claims. The court denied respondents' motion to dismiss petitioner for lack of standing, and respondents amended their pleading to assert counterclaims 1-13 against petitioner. *Id.* at A63 n.7.

After securing its role in the litigation as the sole plaintiff, petitioner moved to dismiss counterclaims 6-13 on Eleventh Amendment immunity grounds and for failure to state a claim under Federal Rule of Civil Procedure 12(b)(6). Petitioner also moved to dismiss counterclaims 10-13 as barred by California state law privileges, and counterclaim 5 for failure to state a claim under Federal Circuit precedent. Petitioner filed a motion to strike only one of the affirmative defenses, which alleged inequitable conduct, and did not move to dismiss counterclaims 1-4.

While the motions were still under consideration, petitioner moved to stay the entire case on January 10, 2003, pending an intervening reexamination proceeding on the patents that petitioner had initiated in October 2002 in the United States Patent and Trademark Office (the "PTO"). On February 23, 2003, the district court denied petitioner's stay motion, finding that respondents would

be unfairly prejudiced by a stay after petitioner's claims already had cast a cloud over respondents for two years, the parties had already completed extensive discovery, and petitioner's reexamination request in the PTO was based on prior art references known to petitioner for many years.[3]

3. On February 10, 2003, the district court granted petitioner's motion to dismiss counterclaims 12 and 13 for failure to state a claim and petitioner's motion to strike respondents' affirmative defense of inequitable conduct. Pet. App. 84a, 92a. The court denied the remainder of petitioner's motions, including its motion to dismiss counterclaims 6-11 on Eleventh Amendment immunity grounds and under Rule 12(b)(6). Pet. App. 52a-53a, 66a, 68a, 73a, 81a.

In denying the immunity motion, the court found that, although petitioner is an "arm of the state," it had waived its immunity as to counterclaims 6-11.[4] Pet. App. 52a-53a. The court reasoned that, because counterclaims 6-11 are based on the same underlying factual allegations as at least respondents' unclean hands affirmative defense, a logical relationship exists among the various claims as pleaded. The court found that, therefore, petitioner had waived its immunity by filing suit because counterclaims 6-11 were compulsory to petitioner's patent infringement claims. *Ibid.*

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[3] Petitioner did not file its request for reexamination of the two patents until after nearly two years of litigation in the ITC and the district court on its patent infringement claims. On December 19, 2002, the PTO granted the request to initiate a reexamination and that proceeding remains pending.

[4] The court's immunity ruling extended to counterclaims 6-13. Respondents refer to counterclaims 6-11 because the court dismissed counterclaims 12 and 13 under Rule 12(b)(6).

In its February 10, 2003 decision on the motion to dismiss the counterclaims, the district court expressly declined to rule on an argument made by petitioner for the first time in its reply brief. In that brief, petitioner asserted that counterclaims 6-11 could not be compulsory by way of their relationship to respondents' unclean hands and patent misuse affirmative defenses because the facts alleged in support of the counterclaims could not, as a matter of law, constitute unclean hands or patent misuse. Pet. App. 53a n.15. The district court held that it was "improper to raise in reply a series of arguments that amount to an entirely new, unfiled motion." *Ibid.* Petitioner had not moved to dismiss either of those affirmative defenses that it now claimed were inadequate as a matter of law, despite its extensive motions on the merits of counterclaims 5-13 and the inequitable conduct affirmative defense, which was also based on the same factual allegations as counterclaims 5-13. In light of this litigation strategy pursued by petitioner, the court expressly noted that "it may be necessary to revisit the question of [petitioner's] waiver of Eleventh Amendment immunity," in anticipation of petitioner's later legal challenge to the unclean hands and patent misuse affirmative defenses on which the counterclaims relied for the compulsory status that waived the immunity. *Ibid.*; Tr. of Dec. 20, 2002 Hearing on Pet.'s Mot. to Dismiss, at 19-22.

Petitioner did not, however, pursue any further challenge to the patent misuse or unclean hands defenses. Rather, on March 11, 2003, petitioner filed a notice of appeal of the district court's denial of its motion to dismiss counterclaims 6-11 on Eleventh Amendment grounds and sought a stay of the entire case pending that appeal. On June 2, 2003, the district court granted a stay, but only as to counterclaims 6-11 and only as to petitioner; the court

denied the stay as to all other claims and counterclaims, including petitioner's patent infringement claims and counterclaims 6-11 as to CTI.

4. On June 30, 2004, the court of appeals dismissed petitioner's appeal for lack of jurisdiction on the grounds that the district court's Eleventh Amendment immunity ruling is not final under 28 U.S.C. §§ 1291, 1295(a)(1) and does not satisfy the collateral order doctrine set forth in *Cohen v. Beneficial Industries Loan Corp.*, 337 U.S. 541 (1949). Pet. App. 9a-13a. The court recognized that, "[t]o come within the 'small class' of . . . *Cohen*, the order must [1] conclusively determine the disputed question, [2] resolve an important issue completely separate from the merits of the action, and [3] be effectively unreviewable on appeal from a final judgment." *Id.* at 9a (quoting *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139, 144 (1993); *Coopers & Lybrand v. Livesay*, 437 U.S. 463, 468 (1978)).

The court of appeals held that the order sought to be appealed here does not meet the first *Cohen* requirement because it did not conclusively determine whether respondents' counterclaims 6-11 are compulsory, and thus whether petitioner had waived its immunity as to those claims. The court of appeals emphasized that the district court had refused to address a substantial portion of petitioner's argument because "the argument was improperly raised in a reply brief" before the district court. Pet. App. 11a. It further pointed to the fact that the district court itself, "expressly noted that 'it may be necessary to revisit the question of [petitioner's] waiver of Eleventh Amendment immunity' if it were to determine 'that [respondents'] affirmative defenses are not supported by the evidence or

are otherwise insufficient as a matter of law.'" *Ibid.* (quoting district court order, Pet. App. 53a n.15). The court of appeals also noted that its consideration of the waiver issue "at this stage of the proceeding would be particularly inappropriate because the issues remaining for the district court to decide – the propriety of the affirmative defenses – are themselves intimately bound up with the merits." Pet. App. 13a.

The court of appeals denied rehearing without dissent on January 3, 2005. Pet. App. 15a-18a. The court expressly rejected petitioner's argument that the court's June 30, 2004 order is contrary to the Fifth Circuit's decision in *Sherwinski v. Peterson*, 98 F.3d 849 (1996), because in the instant case, the district court expressly left the matter open to reconsideration. Pet. App. 16a. The court also held that cases cited by petitioner did not suggest that "a tentative decision of the district court on immunity grounds, expressly subject to further consideration because of unresolved issues in the case, meets the first prong of the *Cohen* test." *Id.* at 17a.

5. Meanwhile, during the pendency of the instant appeal, litigation on petitioner's infringement claims proceeded in the district court. The district court issued an order on July 31, 2003, which construed key claim terms in respondents' favor and granted respondents' summary judgment motion for invalidity of the asserted claims of the '349 patent. On July 1, 2004, the district court entered summary judgment in favor of respondents on the '400 patent, finding that all asserted claims of the '400 patent were either invalid or not infringed. On September 20, 2004, on the parties' joint motion, the district court issued an order entering final judgment against petitioner on its patent infringement claims pursuant to Federal Rule of

Civil Procedure 54(b). The district court stayed the rest of the case. On October 18, 2004, petitioner filed a notice of appeal from that judgment disposing of its patent infringement claims, and that appeal remains pending in the Federal Circuit. Petitioner filed its opening brief in that appeal on June 24, 2005 and respondents' brief currently is due on September 7, 2005.

SUMMARY OF ARGUMENT

The Federal Circuit's ruling below addresses an unusual set of circumstances that do not merit further review and that court correctly resolved the case by applying the collateral order doctrine set forth in *Cohen v. Beneficial Industries Loan Corp.*, 337 U.S. 541 (1949).

A. There is no division in the lower courts on the issue presented. The only case cited by petitioner to support its claimed conflict, *Sherwinski v. Peterson*, 98 F.3d 849 (5th Cir. 1996), bears little similarity to this case. In that case, the district court had categorically refused to rule on the party's immunity claim until further development of the case. By contrast, the provisional nature of the district court's order in the instant case on the question of Eleventh Amendment immunity against certain counterclaims was due to petitioner's strategic decisions about when to raise certain legal arguments and its stated intention to seek to present additional legal challenges relevant to the scope of its conceded waiver of immunity at a subsequent time. Tr. of Dec. 20, 2002 Hearing on Pet.'s Motion to Dismiss, at 19-22.

This case also constitutes a poor vehicle for addressing any more broadly applicable issue regarding interlocutory appeals. The court of appeals' opinion may not have any precedential effect because it is not clear whether the

Federal Circuit's decision reflected that court's own interpretation of appellate jurisdiction or whether the decision was that court's best prediction of what the regional court of appeals would have done, as is that court's common approach on issues not within its exclusive jurisdiction.

Also, the question of the appealability of the district court order finding that petitioner's Eleventh Amendment immunity waiver extended to more of the counterclaims than petitioner conceded does not implicate, to the same extent as the typical immunity case, a state entity's Eleventh Amendment right not to be involuntarily haled into federal court. Petitioner invoked the jurisdiction of the federal court as the plaintiff in the action. It then took the unusual further step, well after the suit had commenced and after the challenged counterclaims already were pending against its then co-plaintiff, of amending its agreement with that private co-plaintiff regarding their rights in the patents at issue, so that petitioner voluntarily became the sole plaintiff in the lawsuit, leading to petitioner being added to the challenged counterclaims. Petitioner's separate pending appeal of the district court's judgment on the merits of the patent claims also significantly diminishes the importance of any claimed immunity from litigation on the counterclaims because the result of that appeal may affect the status of the rest of the case, including the counterclaims.

B. The Federal Circuit correctly held that the district court order in this case does not meet the first requirement for taking an appeal of a collateral order under *Cohen* – that the order sought to be appealed conclusively determine the scope of petitioner's waiver of immunity. That is so because of the district court's express statement that further consideration of the immunity issue may be necessary in anticipation of petitioner's later legal challenges

relevant to the scope of its waiver of immunity. In addition, the second *Cohen* requirement – that the issue be separate from the merits – is likely not met here because the issue necessary to determine the scope of the waiver involves the propriety of certain affirmative defenses which the court found "are themselves intimately bound up with the merits." Pet. App. 13a. The order also does not necessarily meet the third *Cohen* requirement that the order be effectively unreviewable on appeal from the final judgment, which the court of appeals did not reach. This case does not present the question of immunity against suit, which is unreviewable on appeal after the party already has been subjected to the very suit challenged. Rather it presents a much narrower claim of immunity against certain of the counterclaims, the facts of which would need to be developed, discovered, and litigated in relation to other aspects of the litigation to which petitioner concededly has waived its immunity.

REASONS WHY THE PETITION SHOULD BE DENIED

A. The Federal Circuit's Purported Disagreement With One Other Court Of Appeals' Ruling In A Dissimilar Case Does Not Warrant Review

1. The Single Circuit Case Cited By Petitioner As A Purported Conflict Bears Little Similarity To This Case And Provides No Cause For Further Review

There is no division in the lower courts on the issue presented in this case. Petitioner cites only the Fifth Circuit's decision in *Sherwinski v. Peterson*, 98 F.3d 849 (1996), to argue that there is a conflict among the courts of appeals warranting this Court's review on whether appellate

jurisdiction exists when a district court's order declining to grant a motion to dismiss on Eleventh Amendment immunity grounds is provisional. Pet. 10-14. But *Sherwinski* involved a very different scenario from the instant case. This single, inapposite case does not give rise to a conflict meriting this Court's review. Also, contrary to petitioner's repeated claim (Pet. 9, 14), the decision below is not the first appellate decision to find that a State has failed to meet one of the requirements for taking an interlocutory appeal since *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139 (1993). *See* pages 27-28, *infra*.

In *Sherwinski*, the district court summarily refused to consider an immunity motion by a state defendant sued by a prisoner for violations of state law. In its order denying the motion, the district court categorically stated that, "'until the factual and legal basis of the case has been further developed, no defendants will be dismissed.'" *Id.* at 851. The court of appeals exercised appellate jurisdiction to review that order under the collateral order doctrine even though the district court's order did not "deny the Department's motion to dismiss based on an express finding of no immunity." *Ibid.* The court of appeals reasoned that its review of the appeal furthered the purposes of "prevent[ing] the indignity of subjecting a State to the coercive process of judicial tribunals at the instance of private parties" and of resolving immunity issues by the time motion practice is completed in a case. *Ibid.* (quoting *Puerto Rico Aqueduct & Sewer Auth. v. Metcalf & Eddy, Inc.*, 506 U.S. at 146).

Petitioner errs in suggesting that the district court's ruling in this case is identical to the order in *Sherwinski*, and that the Federal Circuit's holding, is thus in conflict with that decision. Neither of the reasons articulated in

Sherwinski for granting interlocutory review of the order in that case has any applicability to this case.

Petitioner is not necessarily deprived of the opportunity to have the immunity issue resolved before motion practice is completed in the case. In *Sherwinski*, the provisional nature of the ruling stemmed only from the district court's categorical declaration that it would not entertain any motions to dismiss until the case was further developed. Petitioner ignores the very different circumstances of this case where petitioner, itself, had within its control the possibility to take further action to challenge certain affirmative defenses directly linked to the immunity ruling, which could have led to the district court making conclusive its immunity ruling. Indeed, the district court's ruling was provisional because of petitioner's failure to raise its legal argument in a timely manner or to challenge the related defenses later in a proper procedural manner, as petitioner indicated it would seek to do Tr. of Dec. 20, 2002 Hearing on Pet.'s Mot. to Dismiss, at 19-23.

The district court's finding that petitioner had waived its immunity as to respondents' counterclaims 6-11 was based on its determination that these counterclaims are compulsory to petitioner's own affirmative claims. The court reasoned that, because counterclaims 6-11 are based on the same underlying factual allegations as some of respondents' affirmative defenses, the counterclaims are logically related, and therefore compulsory, to petitioner's claims.

The district court expressly made that ruling provisional, however, because petitioner belatedly had raised in its reply brief an argument that counterclaims 6-11 could not be compulsory based on their relationship to the unclean hands and patent misuse affirmative defenses

because, in petitioner's view, the facts alleged in support of the counterclaims could not, as a matter of law, constitute patent misuse or unclean hands. Due to the lateness of the argument, the district court declined to address it, ruling that "[i]t is improper to raise in reply a series of arguments that amount to an entirely new, unfiled motion." Pet. App. 53a n.15. The court noted, however, that if the court subsequently determined that the affirmative defenses were legally insufficient, then "it may be necessary to revisit the question of [petitioner's] waiver of Eleventh Amendment immunity." *Ibid.*

It is evident that petitioner's own litigation strategy led to the peculiar procedural posture of this case and the lack of an order finally resolving the immunity question when one considers what would have happened had petitioner timely raised its arguments. If the district court had addressed and rejected petitioner's argument and held that the allegations underlying respondents' counterclaims could give rise to patent misuse and/or unclean hands as a matter of law, its determination that the counterclaims are compulsory and that petitioner had waived its immunity as to those counterclaims would have been a conclusive decision. On the other hand, if the district court had addressed and accepted petitioner's argument and held that respondents' alleged facts could not constitute patent misuse and/or unclean hands, the district court would have reached the issue of whether counterclaims 6-11 were compulsory without regard to their relationship to those affirmative defenses, thereby conclusively resolving the immunity question. In either circumstance, the order would have met the first prong of the *Cohen* standard requiring that the issue be conclusively determined in the order sought to be appealed, which the Federal Circuit concluded it did not do in this case.

Petitioner abandoned any effort to obtain a conclusive ruling in the district court on either the affirmative defenses or immunity. It chose, instead, to attempt an immediate interlocutory appeal on its constitutional claim. That litigation strategy prevented the district court from fully analyzing the constitutional issue based on a proper challenge to the legal sufficiency of the affirmative defenses. Petitioner's failure to properly challenge the affirmative defenses in the district court also deprived respondents of an adequate opportunity to respond and prevented the development of a full record for the court of appeals to review.

Petitioner's strategy should not be rewarded by the grant of an immediate interlocutory appeal, allowing petitioner to bypass the district court's primary role in applying facts to law. *Cf. Johnson v. Jones*, 515 U.S. 304, 309 (1995) (noting that interlocutory appeals are the exception because "too many interlocutory appeals can cause harm" and "make it difficult for trial judges to do their basic jobs – supervising trial proceedings"). That principle is particularly applicable here, where the constitutional issue pursued on interlocutory appeal is one that might have been avoided if the district court had been properly presented with petitioner's nonconstitutional arguments regarding the sufficiency of the affirmative defenses and their relationship to the counterclaims. *Cf. Ashwander v. TVA*, 297 U.S. 288, 345-48 (1936) (Brandeis, J., concurring). The court of appeals should not be required to decide an issue in that manner when petitioner had it within its power to properly preserve and present the issue to the district court.

Petitioner's failure to timely raise an argument that led to the district court's provisional ruling in anticipation

of a further proper argument by petitioner certainly raises very different issues than does a more typical case such as *Sherwinski*. This case also is distinct from *Sherwinski* because the practical consequences that follow from the denial of an immediate appeal of the provisional order are not significant in that it does not mean that the state entity is subject to federal court litigation that it otherwise would avoid. The state entity itself invoked the jurisdiction of the federal court and the proceedings on all of the related claims and counterclaims are properly in federal court. *See* pages 26-29, *infra*. Those types of considerations were not at issue in *Sherwinski* and thus do not indicate a disagreement among the circuits in similarly situated cases.

2. The Federal Circuit Decision May Not Constitute Binding Precedent In Any Later Case Because It Is Unclear Whether The Court Was Applying Its Own Law Or Its Prediction Of Regional Circuit Law

The Federal Circuit's unique nationwide appellate jurisdiction over cases that arise under federal patent law has led that court to distinguish between its rulings on patent issues – for which it establishes a single, uniform nationwide rule – and other legal issues – where it follows the rule of the regional circuit court of appeals that would have had jurisdiction over the case as a nonpatent matter. *See, e.g., Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359-60 (Fed. Cir. 1999) (en banc in relevant part); *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1440 (Fed. Cir. 1984) (en banc). In the former instance, its ruling is binding Federal Circuit precedent that governs future Federal Circuit panels and district courts adjudicating cases arising under patent law, but in the

latter instance, its ruling is merely a prediction of what the regional circuit would do under the same circumstances, and thus is likely treated only as advisory by the regional circuit court of appeals.

The Federal Circuit in the instant case did not indicate whether it was treating the question of the finality of the district court's order for appealability purposes as a question of Federal Circuit law or regional circuit law, which in this case would be that of the Ninth Circuit.[5] Petitioner suggests (Pet. 9) that the decision below represents the law of the Federal Circuit on the issue presented, but that is far from clear.

Under Federal Circuit case law, it appears that the Federal Circuit may have been obligated to apply Ninth Circuit case law to the issue of whether a provisional denial of sovereign immunity constitutes a "final decision" and thus is appealable under the collateral order doctrine. That is because the Federal Circuit has held that regional circuit law governs the determination of the finality of an order. *See Phonometrics, Inc. v. Hospitality Franchise Sys., Inc.*, 203 F.3d 790, 793 (Fed. Cir. 2000) ("this court applies the law of the regional circuit" when "the finality of the dismissal" in a case "is a procedural issue not related to patent law;" applying regional circuit law in determining that a dismissal of a complaint with leave to amend is an appealable final judgment); *CAE Screenplates Inc. v. Heinrich Fiedler GmbH & Co., KG*, 224 F.3d 1308, 1315

[5] The parties did not address the choice of law question in their briefs because the court of appeals raised the finality issue *sua sponte* at oral argument. Although petitioner sought panel rehearing, it did not address the question of the applicable law in its petition for rehearing.

(Fed. Cir. 2000) (applying regional circuit law in determining whether party's concession was sufficient to convert partial summary judgment into final judgment; because "this is a procedural issue within the jurisdiction of the regional circuit, * * * we defer to the law of that court"); *Golan v. Pingel Enters., Inc.*, 310 F.3d 1360, 1366 n.3 (Fed. Cir. 2002) ("This court applies the law of the pertinent regional circuit * * * to determine whether the district court's entry [of judgment] was final relative to all pending issues.").

Looking to Ninth Circuit law in reaching its decision in this case, the Federal Circuit would have had to have predicted, as best it could, what the Ninth Circuit would do in the unique situation presented because the Ninth Circuit has not addressed the precise jurisdictional question raised here.[6] *See Bowling v. Hasbro, Inc.*, 403 F.3d

[6] Petitioner did not rely on any controlling Ninth Circuit authority in its rehearing petition or its *certiorari* petition and certainly has not identified any Ninth Circuit case that resolved the question at issue in a manner that is contrary to the binding precedent of any other circuit. In its *certiorari* petition, petitioner cites Ninth Circuit cases regarding only the general proposition that a conclusive denial of a State's claim of Eleventh Amendment immunity against suit can be immediately appealed under the collateral order doctrine, and nothing regarding the appealability of a provisional finding of a waiver of immunity. *See, e.g.*, Pet. 8, 17. For instance, petitioner cites (Pet. 8) *Montana v. Goldin*, 394 F.3d 1189 (9th Cir. 2005), which did not involve a provisional decision on the State's waiver of immunity. In that case, a State was sued by a private party in federal court on a variety of claims and the State moved to dismiss the entire complaint on the grounds of immunity. *Id.* at 1192-1193. After the district court conclusively denied the motion to dismiss the suit, the State filed an immediate appeal and the Ninth Circuit addressed the immunity question while noting that the district court's order was "immediately appealable under the 'collateral order doctrine.'" *Id.* at 1193. Petitioner also cites a Ninth Circuit case in its argument about the scope of its conceded waiver of immunity over compulsory counterclaims (Pet. 17) (citing *In re Lazar*, 237 F.3d 967

(Continued on following page)

1373, 1376 (Fed. Cir. 2005) ("Where the regional circuit has not directly addressed an issue, 'we must reasonably predict how the court would decide the issue.' ").

If that is what occurred, then the decision below is particularly unworthy of this Court's review because the holding will have no precedential value if the Ninth Circuit subsequently disagrees with the Federal Circuit decision when faced with a similar issue. For where an issue does not arise under patent law – as the appealability of a provisional decision concerning sovereign immunity does not – the regional circuit is not bound by a Federal Circuit ruling that is contrary to that regional circuit court's own interpretation of its circuit's law. Likewise, the Federal Circuit's holding in this case would not apply *a fortiori* to Federal Circuit cases arising from other regional circuits.

Whether it is appropriate to view the Federal Circuit's ruling as simply its best prediction of how the Ninth Circuit would address the issue is unclear, however. Other decisions suggest that the Federal Circuit may choose not to apply regional case law when presented with a question of appellate jurisdiction. *See, e.g.*, *Woodard v. Sage Prods., Inc.*, 818 F.2d 841, 844 (Fed. Cir. 1987) (en banc) ("issues of our own appellate jurisdiction" are governed by Federal Circuit case law, not "the law as interpreted by the circuit in which the district court is located").

It may be that the Federal Circuit followed a middle course, as suggested by other Federal Circuit case law, and treated the Ninth Circuit cases as persuasive, but not

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(9th Cir. 2001)), but that issue is not presented by the petition, which involves only a question of appealability.

binding, authority.[7] If the Federal Circuit adopted that approach in this case, then it might reach a different result when addressing any similar appeals arising from other regional circuits by taking guidance from that circuit's case law.

The inability to ascertain the source of the law underlying the Federal Circuit's ruling and to determine the precedential weight or applicability of that ruling in future cases counsel against the Court's further review of the case.

3. This Case Is Not Typical Of Cases Posing Issues Of Immunity And Interlocutory Appeal Because The State Voluntarily Invoked The Jurisdiction Of The Federal Court

Review of this case also is not warranted because of the limited reach of the question presented due to the unusual circumstances of the case. This case does not present the typical Eleventh Amendment immunity defense because, here, the state entity has asserted immunity against suit in federal court in a suit that the state entity, itself, brought in federal court. Petitioner invoked the jurisdiction of the federal courts when it filed this suit against respondents, who then raised appropriate affirmative defenses and filed relevant counterclaims. Petitioner's subsequent attempt to dismiss some of those counterclaims on the ground of Eleventh Amendment immunity, based on its view that they are not compulsory

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[7] *See Kahn v. General Motors Corp.*, 889 F.2d 1078, 1080 n.3 (Fed. Cir. 1989) ("In matters of [appellate] jurisdictional consequence this court takes guidance from interpretations of the regional circuit in which the cause arose."); *Slip Track Sys., Inc. v. Metal Lite, Inc.*, 159 F.3d 1337, 1339 (Fed. Cir. 1998) ("[D]ecisions of the [regional] circuit on [appellate] jurisdictional questions provide useful guidance.").

counterclaims and thus not included in the scope of the State's waiver, may raise interesting questions of law, but those questions are not at issue in this petition. All that is at issue here is the appealability of the district court's provisional order, where the provisional nature of the order resulted from petitioner's own litigation conduct.

As a result, the question of the appealability of the district court order does not implicate, to the same extent as the typical immunity case, a State's Eleventh Amendment right not to be involuntarily haled into federal court. Indeed, not only did petitioner voluntarily submit to the jurisdiction of the federal court, petitioner took the unusual further step, long after the suit had commenced and after the challenged counterclaims already had been asserted against its then co-plaintiff CTI but not against petitioner, of amending its agreement with CTI so that petitioner became the sole plaintiff in the lawsuit. It was only after petitioner took these intentional, affirmative steps that respondents amended their counterclaims to assert them against petitioner.

Petitioner does not dispute that, by filing this lawsuit, it waived its immunity to respondents' compulsory counterclaims. Nor does it claim immunity from the burdens of this litigation. Petitioner seeks to avoid only whatever incremental additional burdens there may be of litigating certain of the counterclaims that the district court determined are "based on the same 'transaction or occurrence' as the plaintiff's causes of action *and* the affirmative defenses asserted in the action." Pet. App. 52a.

The cases cited by petitioner involving the collateral order doctrine do not deal with this unusual situation. This case thus presents a poor vehicle for deciding any broader ranging issue as to the proper application of the

collateral order doctrine in cases involving provisional rulings on waivers of Eleventh Amendment immunity.

4. Petitioner's Separate Pending Appeal Of The Dismissal Of Its Patent Claims Significantly Diminishes The Importance Of Any Claimed Immunity From Litigation On The Counterclaims

Petitioner's underlying patent infringement claims are the subject of petitioner's separate appeal currently pending in the Federal Circuit seeking to overturn the district court's judgment that the patents are invalid and/or not infringed. The district court stayed the remainder of the case pending resolution of that appeal. Pet. 4 n.3. Thus, the only active litigation that petitioner currently faces is in that appeal and the instant appeal; it will not face any litigation even of respondents' concededly compulsory counterclaims on which immunity was admittedly waived, until the Federal Circuit issues its decision and the case returns to the district court.

Whatever result the Federal Circuit reaches in that appeal may well affect the disposition of petitioner's effort to claim Eleventh Amendment immunity because any resolution of the scope of petitioner's immunity waiver hinges on the relationship between counterclaims 6-11 and the remainder of the case. This issue will be more appropriately resolved if and when petitioner's separate Federal Circuit appeal is resolved and the landscape of the litigation is known.

Indeed, if the Federal Circuit upholds the district court's determination that petitioner's patents are invalid and/or not infringed, and no other patent claims remain in

the case, the district court would have discretion to dismiss all the counterclaims because the district court exercised subject-matter jurisdiction over the counterclaims as to petitioner pursuant to the supplemental jurisdiction statute, 28 U.S.C. § 1367(a). Pet. App. 57a-59a. Section 1367 provides that a district court has discretion to decline to exercise supplemental jurisdiction if "the district court has dismissed all claims over which it has original jurisdiction." 28 U.S.C. § 1367(c)(3).

The fate of petitioner's patent infringement claims is further complicated by the fact that the PTO reexamination proceeding is currently pending on the two patents at issue and may affect the status of the claims. Like petitioner's pending Federal Circuit appeal on its patent claims, the PTO proceeding could yield a result that significantly alters the landscape of the litigation.

Thus, the collateral proceedings surrounding this case make this case a problematic vehicle in which to address the appellate jurisdiction issue raised by petitioner.

B. The Federal Circuit Correctly Dismissed The Appeal For Failure To Meet The First Requirement Of The *Cohen* Collateral Order Doctrine And The Other *Cohen* Requirements Provide Further Support For That Dismissal

The court of appeals recognized that, in order for an interlocutory order such as the one at issue here to be appealable under the collateral order doctrine set forth in *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949), the order must "'[1] conclusively determine the disputed question, [2] resolve an important issue completely separate from the merits of the action, and [3] be

effectively unreviewable on appeal from a final judgment.'" Pet. App. 9a (quoting *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. at 144; *Coopers & Lybrand v. Livesay*, 437 U.S. 463, 468 (1978)).

The court of appeals correctly held that the order in this case does not meet the first requirement because it did not conclusively determine the issue of petitioner's waiver of immunity. The court of appeals also noted a fact that suggests that the second requirement is not met here because the issue necessary to determine the scope of the waiver involves the propriety of the affirmative defenses which "are themselves intimately bound up with the merits." Pet. App. 13a. Finally, the order does not necessarily meet the third requirement of *Cohen*, which the court of appeals did not reach, because this case does not present a typical question of immunity against suit which is unreviewable on appeal after the party has been subjected to the very suit challenged, but rather a much more limited immunity against certain of the counterclaims, the facts of which are going to be developed, discovered, and litigated in relation to other aspects of the litigation to which no immunity applies.

1. In holding that certain denials of immunity are immediately appealable under *Cohen*, this Court held that the party claiming the immunity could appeal the claim because "[there] are simply no further steps that can be taken in the District Court to avoid the trial the defendant maintains is barred." *Mitchell v. Forsyth*, 472 U.S. 511, 527 (1985) (quoting *Abney v. United States*, 431 U.S. 651, 659 (1977)). In other words, where a party claiming immunity has already done everything within its power to prevent litigation from moving forward, "*Cohen*'s threshold

requirement of a fully consummated decision is satisfied." *Ibid.*

Petitioner did not take all the available steps to vindicate its claimed right to immunity from suit before seeking an interlocutory appeal in this case. Because of that, the district court was able to make only a provisional determination as to the compulsory counterclaim issue given the claims and defenses in the case at the time. The district court stood poised "to revisit the question of [petitioner's] waiver of Eleventh Amendment immunity" if and when petitioner properly challenged the relevant affirmative defenses. Pet. App. 53a n.15. Accordingly, petitioner's own failed litigation strategies at the motion to dismiss stage forced the district court to enter only a provisional order and precluded it from conclusively deciding the question.[8]

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[8] Thus, petitioner's contention that the Federal Circuit's decision "presents an exception that threatens to instantly swallow the rule" of interlocutory appeal is inapposite. Pet. 15. Petitioner cites *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 460 U.S. 1, 12 (1983), in support of the proposition that all interlocutory orders are inherently provisional. Petitioner ignores that the Court in that case expressly distinguished between orders that are provisional "only in the technical sense that every order short of a final decree is subject to reopening at the discretion of the district judge," and an order that is truly provisional because "some revision might be reasonably expected in the ordinary course of the litigation." *Id.* at n.14. Unlike *Moses H. Cone*, in which the Court found that the district court had provided no basis to reasonably expect that it planned to reconsider its decision, the district court here expressly indicated that it could be necessary to revisit petitioner's immunity claim in light of an anticipated further legal challenge by petitioner.

Through its interlocutory appeal, petitioner seeks to sidestep its strategic decision. Petitioner asked to have the Federal Circuit address the very issue that it failed to properly raise in the district court, namely, that respondents' counterclaims 6-11 could not be compulsory via their relatedness to petitioners' affirmative defenses because the facts alleged by respondents could not constitute patent misuse and unclean hands as a matter of federal patent law. *See* Pet. C.A. Br. 29. Such an appellate ruling would have the result of effectively striking respondents' affirmative defenses of patent misuse and unclean hands from the case, even though petitioner did not properly challenge, and respondents did not have the opportunity to defend, those defenses in the district court. That is precisely the type of argument that is *not* appropriate for interlocutory appeal. *Cf. Johnson v. Jones*, 515 U.S. 304, 314, 318 (1995) (interlocutory appeals generally available for denials of motions to dismiss on grounds of qualified immunity are not available for "fact-related legal issues that likely underlie the plaintiff's claim on the merits" because "[i]mmunity appeals . . . interfere less with the final judgment rule if they [are] limited to cases presenting neat abstract issues of law.").

2. The court of appeals strongly suggested that the order at issue also does not meet the second requirement of *Cohen* that the order "resolve an important issue completely separate from the merits of the action." *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. at 144 (quoting *Coopers & Lybrand v. Livesay*, 437 U.S. 463, 468 (1978)). The Federal Circuit expressly stated that "considering the issue of waiver at this stage of the proceeding would be particularly inappropriate because the issues remaining for the district court to decide – the

propriety of the affirmative defenses – are themselves intimately bound up with the merits." Pet. App. 13a. The parties also agreed below that, based on governing circuit law, the resolution of petitioner's waiver of immunity hinges on whether counterclaims 6-11 are compulsory to petitioner's patent infringement claims. Pet. C.A. Br. 22-23. That, in turn, requires an analysis of the relatedness of the various claims in the case. *Ibid.*

That determination by the court of appeals regarding the interrelatedness of the waiver issue and the legal sufficiency of the affirmative defenses is critical in weighing the appropriateness of an immediate appeal. In *Johnson*, 515 U.S. at 315-16, this Court relied on a similar determination in holding that no interlocutory appeal was available from the fact-based denial of a qualified immunity defense.

3. Finally, the order petitioner seeks to appeal does not necessarily meet the third requirement of *Cohen* (which the court of appeals did not reach) because this case does not present a typical question of immunity against suit which is "unreviewable on appeal" after the party has been subjected to the very suit challenged. Rather, this case involves a much narrower issue of whatever incremental additional burden is placed on a litigant by certain counterclaims, the facts of which are going to be developed, discovered, and litigated in any event, in relation to other aspects of the litigation to which no immunity applies.

As discussed above, *see* pages 19-21, unlike the typical context in which a State invokes the Eleventh Amendment after being involuntarily haled into federal court, petitioner concededly waived its entitlement to immunity against litigating a suit in federal court by voluntarily

invoking federal jurisdiction in bringing this suit. *See Lapides v. Board of Regents of Univ. Sys. of Georgia*, 535 U.S. 613, 619 (2002) ("a State's voluntary appearance in federal court amounted to a waiver of its Eleventh Amendment immunity"). Thus the critical need for an immediate appeal to avoid a State having to litigate a case in federal court does not exist in this type of case.

Petitioner's appeal, even if successful, will not protect it from any indignity that it would otherwise have suffered by being haled into federal court because it is not being haled into federal court; petitioner itself invoked the jurisdiction of the federal courts. Indeed, by modifying its agreement with its then co-plaintiff, a private party, after the suit had been initiated, petitioner took the unusual step of voluntarily taking on more of the burden of the federal court litigation by becoming the sole plaintiff. Petitioner suffers no harm by being forced to litigate in federal court, because it chose the forum.

Petitioner's argument is about only the scope of its waiver because petitioner concedes that it has waived immunity to the other counterclaims that it acknowledges are compulsory. There is no compelling reason to permit an immediate appeal to address the scope of the waiver of a party's immunity from suit once the waiver's existence has been established. The courts of appeals are in accord on this point. "Once the defendants concede that the litigation is proper, they undermine any claim of entitlement to an interlocutory appeal." *Mercer v. Magnant*, 40 F.3d 893, 896-97 (7th Cir. 1994) (Easterbrook, J.); *see Espinal-Dominguez v. Puerto Rico*, 352 F.3d 490, 497 (1st Cir. 2003) (State is not entitled to interlocutory appeal when "the State interposes the Eleventh Amendment not as the basis for an immunity from suit, but, rather, as a

defense to one of several remedies sought by a particular plaintiff" because "[t]here is a critical difference between avoiding trial, on the one hand, and limiting exposure to liability, on the other hand."); *Burns-Vidlak* v. *Chandler*, 165 F.3d 1257, 1260 (9th Cir. 1999) (when State sought immediate appeal of denial of immunity against punitive damages, but admitted it could be sued for compensatory damages, "the State has failed to satisfy the third criterion of the *Cohen* test, rendering the district court's order denying the State's motion for partial summary judgment an unappealable collateral order").

Moreover, the incremental additional burden of defending against certain counterclaims in this case does not rise to the level of the right not to be haled unwillingly into federal court because those counterclaims involve the same facts and discovery that would be required to litigate the affirmative defenses. An immediate appeal will not shield petitioner from significant additional discovery burdens, assuming that burden alone could ever justify an immediate appeal. The affirmative defenses of patent misuse and unclean hands and counterclaim 5 for patent misuse, unchallenged by petitioner on immunity grounds, would require development through discovery of the same facts that are involved in the challenged counterclaims. Petitioner's effort to appeal that issue now on an interlocutory basis will do little to affect the scope of the litigation to which it concededly is subject, as a party, in district court. Therefore, petitioner errs in relying on *Behrens v. Pelletier*, 516 U.S. 299 (1996) (*see* Pet. 15-16) because that case focused on the need for an interlocutory appeal to avoid a party being subject to the burden of discovery when a successful interlocutory appeal would have completely removed the party from the case, and thus from all

discovery. *See Espinal-Dominguez*, 352 F.3d at 498 ("a successful *Behrens* appeal completely protects the individual from litigating on his or her own behalf; it does not function merely to eliminate certain remedies from the case whilst leaving the identities of the litigants intact").

Thus, in this type of case, an appeal on the question of immunity against certain of the counterclaims, even if presented as part of an appeal from the final judgment, would address adequately the concerns of petitioner that it is immune from liability on any counterclaims that are not adequately related to petitioners' own claims. At the same time, it would vindicate the strong federal interest in avoiding piecemeal litigation. *See Catlin v. United States*, 324 U.S. 229, 233-34 (1945) ("The foundation of this policy is not in merely technical conceptions of 'finality.' It is one against piecemeal litigation."). "Permitting piecemeal appeals would undermine the independence of the district judge, as well as the special role that individual plays in our judicial system. In addition, the [finality] rule is in accordance with the sensible policy of avoiding the obstruction to just claims that would come from permitting the harassment and cost of a succession of separate appeals from the various rulings to which a litigation may give rise, from its initiation to entry of judgment." *Van Cauwenberghe v. Biard,* 486 U.S. 517, 521-22 n.3 (1988) (quotations omitted).

CONCLUSION

For the reasons set forth above, the petition for a writ of certiorari should be denied.

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No. 04-1346

IN THE

Supreme Court of the United States

THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,
Petitioner,

v.

FUJITSU LIMITED AND FUJITSU HITACHI
PLASMA DISPLAY LIMITED,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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INTRODUCTION

A State's entitlement to an interlocutory appeal under *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139 (1993) is a right designed to safeguard the dignity of the States in the federal system. This petition presents the issue of whether a State loses that right when a district court expresses a willingness to revisit its sovereign immunity decision later. The Fifth Circuit in *Sherwinski v. Peterson*, 98 F.3d 849 (5th Cir. 1996) answered this question "No" but the Federal Circuit answered "Yes."

Fujitsu attempts to turn this legal conflict into a narrow factual issue, primarily by arguing that the University's strategic choices prevented the district court from ruling definitively on the merits. A review of the published opinions below dispels Fujitsu's argument.

The district court considered and resolved the merits of the sovereign immunity issue. Its opinion spends three pages on legal standards, nine pages on whether the University is an arm of the State, and ten pages on whether the University has waived sovereign immunity. App. 31a-53a. The court identified as the "axis of the dispute" the question of whether or not Fujitsu's affirmative defenses were relevant to the University's sovereign immunity waiver, noted at the hearing that this was a close and undecided issue, and determined (erroneously, in the University's view) that these defenses were relevant and that the University had therefore waived its Eleventh Amendment sovereign immunity. App. 43a-53a.

The district court expressed a willingness to revisit the issue "at a later stage" after determining whether the defenses were factually and legally supported. App. 53a n.15. This statement, which flowed from the logic of the court's decision, is indistinguishable from the willingness of the district court in *Sherwinski* to revisit the immunity issue after "the factual and legal basis of the case has been further developed." *Sherwinski*, 98 F.3d at 851. Fujitsu's attempt to fault the University for not seeking to resolve the affirmative

defenses on the merits prior to appeal ignores that the "axis of the dispute" was whether these affirmative defenses are relevant at all.

Fujitsu's other arguments are also meritless. There is no actual uncertainty about whether the Federal Circuit was applying Federal Circuit or regional circuit law: overwhelming case law, including an *en banc* Federal Circuit decision, establishes that Federal Circuit law applies. Fujitsu is also wrong to disparage the importance of Eleventh Amendment sovereign immunity when the State files suit in federal court (as the University did to enforce its patent rights, which are subject to exclusive federal jurisdiction). A well-developed body of case law confirms the constitutional importance of dismissing claims that are insufficiently related to the State's federal lawsuit.

Because the Federal Circuit's decision does not merely introduce a procedural error into the law, but does violence to an important (and hitherto correctly-applied) rule designed to safeguard the place of States in our federal system, the Court should act to correct the Federal Circuit's error and resolve the conflict.

ARGUMENT

I. THE SPLIT OF AUTHORITY CANNOT BE TRANSFORMED INTO A NARROW, FACTUAL ISSUE

A. The District Court Denied The Sovereign Immunity Motion On The Merits

Fujitsu's primary argument is that the University's strategic choices prevented the district court from ruling definitively upon its sovereign immunity claim. Opp. at 5-6, 8, 10-15. The decisions below disprove this contention.

The University argued that it was inappropriate to consider affirmative defenses drafted by Fujitsu in determining the scope of the University's waiver—a determination that (the University contends) should focus only on the State's con-

duct. The district court called this issue "the axis of the dispute." App. 43a-44a. The district court noted that authorities relevant to this issue were "ambiguous" and "subject to either interpretation" and that it was "a reading of the tea leaves to figure out what the Federal Circuit will say when it gets this question." Tr. of December 20, 2002 Hearing at 29. The district court spent nine pages analyzing the issue on the merits. App. 45a-53a.

The court concluded that it should consider Fujitsu's affirmative defenses. App. 52a. Since Fujitsu referenced its counterclaims in the affirmative defenses, this was sufficient (in the district court's view) for a finding of waiver. App. 52a-53a. The district court therefore ruled that the University "has waived its Eleventh Amendment immunity as to Counterclaims Six through Thirteen." App. 53a.

Fujitsu's repeated description of the district court's ruling as "provisional" does not make it so. Nor did the district court state it might revisit the issue because of "strategic choices" of the University. Instead, the district court stated that its immunity determination could possibly change based on later developments in the lawsuit:

> The Court is also mindful that at this stage of the proceedings, it is impossible to know whether or not Fujitsu's affirmative defenses *will be supported by the evidence.* If the Court determines *at a later stage of this case* that Fujitsu's affirmative defenses are not supported by the evidence or are otherwise insufficient as a matter of law, it may be necessary to revisit the question of UI's waiver of Eleventh Amendment sovereign immunity. (App. 53a n.15, emphasis added.)

Fujitsu argues that the University should have made an effort to obtain a conclusive ruling on the affirmative defenses prior to taking an appeal. Opp. at 14. Even putting aside the University's argument that these affirmative defenses are altogether irrelevant, Fujitsu is really arguing that the University should have abandoned its right to appeal from

the district court order. The University was required to appeal within 30 days. Fed. R. App. Proc. 4(a)(1)(A). Any further discovery and motion practice in the Northern District of California would have taken far longer than that—indeed, the earliest a motion would be heard would be thirty-five days from filing. N.D. Cal. L.R. 7-2(a).

Further, the district court made clear that it would not dismiss the affirmative defenses at the pleading stage. The opinion stated that the University's "generalized objection on the pleading to the unclean hands defense lacks merit." App. 53a n.15. At the hearing, too—far from faulting the University for playing strategic games—the district court told the University that "the likelihood of your being able to strike any of these on the pleadings in such a way that will really narrow the focus is very unlikely . . . . I think that they are going to be able to plead through the unclean hands defense . . . I don't disagree with the way you have attacked this . . . ." Tr. of December 20, 2002 Hearing at 21.

The district court also opined that the University attacked the allegations of the affirmative defenses in its reply brief. The court's opinion stated explicitly that this was a "[s]econd," alternative reason as to why the district court would not dismiss—the court's first reason was on the merits. App. 53a n.15.

Whether Fujitsu's affirmative defenses will ultimately fail does not affect the question of whether it is proper to consider them when determining waiver. On appeal, the University continued to argue that the district court should not have considered the affirmative defenses at all in determining waiver. University's Opening Federal Circuit Brief at 4, 16-17, 32-37.[1] Yet the Federal Circuit declined to decide the issue

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[1] The University also argued that Fujitsu's defenses are insufficiently related to the counterclaims. The Federal Circuit construed this argument as an attack on the defenses' merits that the district court had "refused to address." (App. 10a-11a; *but see* App. 53a n.15 [district court addressed

because it dismissed the appeal. Because the opinions below are published, the fact that the district court substantively decided the sovereign immunity question, and that the Federal Circuit nevertheless dismissed the appeal, will not be lost on any court or litigant applying the Federal Circuit's new exception to *Puerto Rico Aqueduct*.

B. Fujitsu's Effort To Reconcile This Case With *Sherwinski* Is Unpersuasive

Fujitsu's attempt to reconcile *Sherwinski* and the current case is not credible. In fact, Fujitsu's argument would lead to topsy-turvy results on the issue of when a district court "conclusively determines the disputed question" so as to support appellate jurisdiction under *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949). A view that both cases are good law would mean that a district court that expresses a willingness to revisit the issue of immunity after refusing to reach any substantive decision "conclusively determines" the question (*Sherwinski*) while a district court that expresses a willingness to revisit the issue after twenty-two pages of close legal reasoning deciding that the State waived sovereign immunity does not "conclusively determine" the question (the Federal Circuit here). The truth is far simpler. *Sherwinski* and the Federal Circuit decision conflict.

Fujitsu primarily attempts to distinguish the current case from *Sherwinski* by reference to the strategic choices of the University. As demonstrated above (*supra* pp. 2-5), Fujitsu's assertions on this subject are incorrect. Instead, the district court here (like the district court in *Sherwinski*) emphasized the uncertain nature of what would transpire as the case develops. Thus, the district court said that it is "mindful that at this stage of the proceedings" one could not tell whether

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sufficiency of unclean hands defense].) The Federal Circuit's treatment of the University's argument about lack of relation between Fujitsu's counterclaims and defenses does not justify the court's refusal to exercise appellate jurisdiction or address the separate, squarely-presented question of whether affirmative defenses should be considered at all.

the affirmative defense would be "supported by the evidence" and that it would consider the immunity question "at a later stage" if they are not "supported by the evidence" or are otherwise legally insufficient. App. 53a n.15. The Federal Circuit similarly relied on Fujitsu's statement about what would happen at the summary judgment stage, a motion involving factual evidence. App. 11a.

There is no analytical difference between the Texas district court expressing a willingness to revisit the issue after the "factual and legal basis has been further developed," *Sherwinski*, 98 F.3d at 851, and the California district court expressing a willingness to revisit the issue at a "later stage" if the affirmative defenses are not "supported by the evidence or are otherwise insufficient as a matter of law." App. 53a n.15. Appellate jurisdiction exists over both cases under *Puerto Rico Aqueduct*—an issue the Fifth Circuit decided correctly and that the Federal Circuit decided incorrectly.

C. Fujitsu's Other Arguments Fail

Fujitsu makes a number of other arguments attempting to portray this case as unworthy of review. All are meritless.

First, Fujitsu argues that the Federal Circuit's decision lacks precedential force because the Federal Circuit may have been following regional circuit precedent. Opp. at 15-19. Black letter law in the Federal Circuit holds to the contrary: an *en banc* panel and numerous recent cases hold that appellate jurisdiction is governed by Federal Circuit, not regional circuit, law. *Woodard v. Sage Prods., Inc.*, 818 F.2d 841, 844 (Fed. Cir. 1987) (*en banc*) ("While in some matters of procedural or substantive law this circuit has concluded that we will follow the law as interpreted by the circuit in which the district court is located, such deference is inappropriate on issues of our own appellate jurisdiction.") (citation omitted). *See also Pause Tech. LLC v. TiVo Inc.*, 401 F.3d 1290, 1292 (Fed. Cir. 2005) (applying "Federal Circuit law, not that of the regional circuit from which the case arose" when "obligated to consider whether there is a final judgment

of the district court, . . . or a basis for jurisdiction over an interlocutory order") (citation omitted); *H.R. Technologies, Inc. v. Astechnologies, Inc.*, 275 F.3d 1378, 1382 (Fed. Cir. 2002) ("[b]ecause the finality of the dismissal presents an issue of our jurisdiction, we apply our own law, not that of the regional circuit"); *State Contr. & Eng'g Corp. v. Florida*, 258 F.3d 1329, 1334 (Fed. Cir. 2001) ("[w]e have specifically held that Federal Circuit law applies to . . . appellate jurisdiction issues"); *Special Devices, Inc. v. OEA, Inc.*, 269 F.3d 1340, 1343 (Fed. Cir. 2001) (applying Federal Circuit law on whether an unquantified attorneys' fee award is final for purposes of appeal because "we apply our own law in determining our own jurisdiction"); *Enercon Indus. Corp. v. Pillar Corp.*, 105 F.3d 1437, 1439 n.2 (Fed. Cir. 1997) ("In determining whether we have jurisdiction, we apply our own law and not the law of the regional circuit."); *Spraytex, Inc. v. DJS&T*, 96 F.3d 1377, 1379 (Fed. Cir. 1996) ("Because this is an issue concerning our jurisdiction, we apply our own law and not the law of the regional circuit."); *Sanders Assocs., Inc. v. Summagraphics Corp.*, 2 F.3d 394, 395 (Fed. Cir. 1993) (following Federal Circuit law "because the appealability of the sanction order relates directly to the issue of our own jurisdiction").

The Federal Circuit applies its own law because it "has the duty to determine its jurisdiction and to satisfy itself that an appeal is properly before it." *Woodard*, 818 F.2d at 844. To the extent that the three cases cited by Fujitsu hold otherwise, they are contrary to settled authority. The notion that any court will view the Federal Circuit's decision here as "non-precedential" requires more subtlety and imagination than the case law warrants.

Second, Fujitsu denigrates the importance of applying the Eleventh Amendment because the University took steps to file and prosecute a patent infringement lawsuit in federal court. Opp. at 9, 19-21. Eleventh Amendment principles do not disappear where, as here, a State is required to file suit in

federal court. Federal courts must dismiss claims insufficiently related to the State's original action because the "Eleventh Amendment confirms that each state is a sovereign entity and that 'it is inherent in the nature of sovereignty not to be amenable to the suit of an individual without its consent.'" *In re Creative Goldsmiths of Washington, D.C., Inc.*, 119 F.3d 1140, 1144 (4th Cir. 1997) (quoting *Seminole Tribe of Florida v. Florida*, 517 U.S. 44, 54 (1996)). "[A]s to claims against the sovereign, the latter's submission to a court's jurisdiction, because of its suit, draws in only such adverse claims as have arisen out of the same transaction which gave rise to the sovereign's suit." *In re Monongahela Rye Liquors, Inc.*, 141 F.2d 864, 869 (3rd Cir. 1944).

Numerous cases dismiss on Eleventh Amendment grounds claims that are insufficiently related to the State's initial federal court action. *See, e.g., In re Pegasus Gold Corp.*, 394 F.3d 1189, 1196-97 (9th Cir. 2005) (dismissing debtor's claims against Montana filed in response to Montana's proof of claim); *Creative Goldsmiths*, 119 F.3d at 1149 (dismissing trustee's adversary action against Maryland filed in response to Maryland's proof of claim); *In re Department of Energy Stripper Well Exemption Litig.*, 763 F. Supp. 498, 502-03 (D. Kan. 1991) (dismissing cross-claim against New Mexico); *Woelffer v. Happy States of America, Inc.*, 626 F. Supp. 499, 503 (N.D. Ill. 1985) (dismissing counterclaim against Illinois agency); *Burgess v. M/V Tamano*, 382 F. Supp. 351, 356 (D. Maine 1974) (dismissing counterclaim against Maine). This rule is especially important where, as here, the State had no choice but to file in federal court because of exclusive federal jurisdiction, such as exclusive patent jurisdiction under 35 U.S.C. section 1338(a). *See, e.g., Ninth Avenue Remedial Group v. Allis-Chalmers Corp.*, 962 F. Supp. 131, 135 (N.D. Ind. 1997) (State does not waive all immunity because it was required to file CERCLA action in federal court). Proper application of the Eleventh Amendment is as important here as in any other case.

Third, Fujitsu argues that the pending patent appeal and reexamination may alter the result of Fujitsu's counterclaims. Opp. at 9, 21-22. Regardless of how Fujitsu's counterclaims are ultimately resolved, the Federal Circuit has already denied the University's right to an interlocutory appeal under *Puerto Rico Aqueduct*. In doing so it has weakened protections for sovereign States in a manner that will go unremedied unless the Court grants this petition.

II. THE FEDERAL CIRCUIT'S ERROR ERODES ELEVENTH AMENDMENT PROTECTIONS

The Federal Circuit decision is a significant departure from prior law—it is the first case since *Puerto Rico Aqueduct* that dismissed an appeal from a motion challenging claims on sovereign immunity grounds. In arguing that the decision breaks no new ground (Opp. at 11, 27-28), Fujitsu relies on the two cases already discussed by the University in its original petition. Pet. at 9 n. 5. In these cases, a State sought to appeal an immunity challenge to a particular type of damages—but conceded that the cause of action was proper. *Burns-Vidlak v. Chandler*, 165 F.3d 1257, 1260-1261 (9th Cir. 1999); *Mercer v. Magnant*, 40 F.3d 893, 896-897 (7th Cir. 1994).

By contrast, no court—before the Federal Circuit here—has held that it lacked appellate jurisdiction over a sovereign immunity challenge to a cause of action under *Puerto Rico Aqueduct*. Instead, the law was previously well-settled. Neither the University (which took an appeal) nor Fujitsu (which did not attempt to defend the Federal Circuit decision on jurisdiction even in its response to the University's rehearing petition) nor the district court (which granted an automatic stay of the counterclaims pending appeal) ever doubted that the district court order was appealable. The Federal Circuit decision changes sovereign immunity law in a harmful and disruptive way.

Fujitsu's opposition attempts to defend the merits of the Federal Circuit decision for the first time. Opp. at 22-29.

This argument ignores the inconsistency between the Federal Circuit's decision and *Puerto Rico Aqueduct*. In *Puerto Rico Aqueduct*, the Court established that denials of sovereign immunity claims as a class meet the requirements for immediate appealability under *Cohen*, stating "[o]nce it is established that a State and its 'arms' are, in effect, immune from suit in federal court, it follows that the elements of the *Cohen* collateral order doctrine are satisfied." *Puerto Rico Aqueduct*, 506 U.S. at 144. The principal reason for allowing an immediate appeal is to ensure "that the States' dignitary interests can be fully vindicated." *Id.* at 146. The Federal Circuit's attempt to re-weigh the *Cohen* factors to defeat such an appeal is not consistent with *Puerto Rico Aqueduct* and subsequent case law. *See* Pet. at 7-9 (citing cases); *see also Johnson v. Jones*, 515 U.S. 304, 315 (1995) ("We of course decide appealability for categories of orders rather than individual orders").

Nor is the Federal Circuit's application of the *Cohen* factors correct. The district court decision on the merits satisfied the requirement that the matter be "conclusively determined," as *Sherwinski* demonstrates and as discussed above. The district court order resolved a question "separate from the merits of the action" (the second *Cohen* factor). Fujitsu has not explained why the merits of the affirmative defenses should be decided before the issue of immunity—or why an appeal under *Puerto Rico Aqueduct* should have to await such a decision. As to the third requirement that the matter be "unreviewable on appeal," forcing a State to litigate claims in federal court as to which it is immune is not a harm that can be remedied by a later appeal. Instead, it is precisely the harm that *Puerto Rico Aqueduct* attempted to prevent.

CONCLUSION

The University respectfully requests that this Court grant the petition for writ of certiorari or, alternatively, summarily reverse the Federal Circuit's dismissal of the appeal.

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